

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

THIRD ANNUAL REPORT
OF THE
DEPARTMENT OF THE TREASURY
ON THE OPERATION AND EFFECT OF THE
DOMESTIC INTERNATIONAL SALES
CORPORATION LEGISLATION
(FOR FISCAL YEAR 1974)



Transmitted to the Congress on
APRIL 9, 1976

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LETTER OF TRANSMITTAL

THE SECRETARY OF THE TREASURY,
Washington, D.C., April 9, 1976.

HON. CARL ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Section 506 of Public Law 92-178, the Revenue Act of 1971, provides that "the Secretary of the Treasury shall, commencing for the calendar year 1972, submit an annual report to the Congress within 15½ months following the close of each calendar year setting forth an analysis of the operation and effect of the provisions of" Title V of that Act, which authorizes the creation of domestic international sales corporations.

Pursuant to that section, I hereby submit the third annual report entitled "The Operation and Effect of the Domestic International Sales Corporation Legislation."

I am sending a similar letter to the President of the Senate.

Sincerely yours,

WILLIAM E. SIMON.

Enclosure.



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Chapter 1 - Introduction and Summary

This is the third annual report to Congress on the operation and effect of the domestic international sales corporation (DISC) legislation. ^{1/} The DISC legislation, which grants a deferral of income tax on 50 percent of the profits of a DISC, was enacted in an effort to increase exports and improve the balance of payments by placing U.S. exporters on a more equal tax footing with their foreign competitors. A brief summary of the history and provisions of the DISC statute, together with enacted and proposed legislative changes, is presented in Chapter 2.

This report covers the second full year of DISC operations, referred to as the DISC year 1974. The report is based on data from tax returns filed by DISCs for accounting periods ending between July 1, 1973 and June 30, 1974; it thus reflects export activity between July 1972 and June 1974. However, of the \$44 billion of export sales reported on the tax returns covered in this report, about 82 percent were shipped during the calendar year 1973. ^{2/}

During the first two and one-half years of DISC operation, from January 1972 to June 1974, new and powerful forces were affecting U.S. exports. Two major exchange rate realignments--in December 1971 and February 1973--increased the price attractiveness of U.S.-produced goods relative to foreign-produced goods for both domestic and foreign purchasers. These realignments were followed by the general adoption of a system of flexible exchange rates by the major industrial countries. At the same time, sharp economic expansion abroad and widespread shortages of agricultural products greatly enhanced foreign purchases of U.S. products. The growth of agricultural exports was particularly noteworthy in the last half of 1973 and early 1974.

Despite the rapid expansion of U.S. exports, the U.S. share of the exports of industrialized countries did not show any marked increase until calendar years 1974 and 1975. From a figure of 18.9 percent in 1971, the U.S. share actually declined slightly to 18.0 percent in 1972, but then rose steadily to 20.2 percent in 1975. ^{3/}

^{1/} Part of P.L. 92-178, The Revenue Act of 1972; the text of the legislation appears in the 1972 report.

^{2/} Preliminary tabulations of gross receipts and net income were made for returns filed for periods ending from July to December 1974 in order to estimate DISC exports for the full calendar year 1973.

^{3/} International Monetary Fund, International Financial Statistics, March 1976.

With so many new factors at work, it has been especially difficult to evaluate the influence of DISC on U.S. exports; nevertheless an attempt to provide an evaluation appears in Chapter 5 of this report. Assuming that the differences between the export growth rate of companies using DISCs and the export growth rate of all other firms can be attributed solely to the stimulative effect of DISC, it is estimated that U.S. exports in DISC year 1974 were about \$4.6 billion higher than they would have been without DISC. Under certain assumptions these additional exports may have provided about 230,000 jobs in the export sector in the DISC year 1974. These estimates of the export and employment effect of DISC depend on numerous assumptions and must be viewed with caution for the reasons explained in Chapter 5.

This report includes information from 4,162 DISC returns, of which 3,480 were full year returns. 4/ The full year returns accounted for 95 percent of all DISC qualified export receipts for the year. Total gross receipts were \$44 billion in DISC year 1974, compared to \$22 billion for DISC year 1973. Net income earned by the 4,162 DISCs amounted to \$3.1 billion. The ratio of net income to gross receipts of all DISCs was 7.1 percent for all products in DISC year 1974, virtually unchanged from the previous year. The ratio of net income to gross receipts was 8.9 percent for manufactured products and 3.9 percent for nonmanufactured products. The largest categories of DISC exports were agricultural products, chemicals, machinery, and transportation equipment. The geographic distribution of DISC exports closely corresponds to that of total U.S. exports (see Chapter 3).

The tax deferred on the \$3.1 billion of income earned by DISCs in the period covered by this report amounted to \$756 million. The revenue cost of DISC is projected to reach \$1,580 million in the fiscal year 1977 (see Chapter 4).

4/ The remaining 682 returns cover periods of less than 12 months.

Chapter 2 - History and Provisions of DISC Statute

History of DISC Legislation

The DISC legislation was first considered by the Congress in 1970 as part of the proposed Trade Act of 1970, which was not enacted. The proposal was revived in 1971 as part of the legislative and executive action dealing with the economic crisis that came to a head in the summer of that year, and was passed as part of the Revenue Act of 1971.

The principal objectives of the legislation are to increase exports and improve the balance of payments. The DISC was designed to help achieve these objectives both by placing U.S. exporters on a more equal tax footing with their foreign competitors, many of which are located in countries that have tax structures that encourage exports, and by more closely equating U.S. taxation of export profits with taxation of U.S. corporations that produce and sell abroad through foreign subsidiaries. Prior to the DISC legislation, U.S. corporations engaged in export sales were taxed currently on their export profits at the full U.S. corporate income tax rate. On the other hand, foreign subsidiaries of U.S. corporations producing and selling abroad are not subject to U.S. income tax and U.S. parent corporations are not normally taxed on foreign subsidiary earnings until the earnings are received as dividends.

Provisions of the DISC Legislation

The statute provides a system of tax deferral for DISCs and their shareholders (mainly other corporations). The profits of a DISC are not taxed to the DISC but are taxed to the shareholders of the DISC when distributed or deemed to be distributed. The shareholders of a DISC are deemed to receive an annual dividend equal to one-half of the DISC's taxable income. This deemed distribution is fully taxable to the shareholders. Federal income taxation is deferred on the one-half of the DISC's taxable income which is not deemed distributed until one of the following events occurs: the income is actually distributed to the DISC's shareholders; a shareholder disposes of the DISC stock; the DISC is liquidated; or the election is terminated or revoked.

To qualify as a DISC, a corporation must be organized under the laws of any state or the District of Columbia, have only one class of stock, issue outstanding capital stock with a par or stated value of at least \$2,500, elect to be treated as a DISC, and satisfy the "gross receipts" and "gross assets" tests.

The gross receipts test requires that at least 95 percent of the corporation's gross receipts consist of "qualified export receipts." In general, qualified export receipts are receipts from the sale or lease for use outside the United States of "export property," or from the furnishing of services related and subsidiary to the sale or lease of export property. Also included are dividends on stock of a "related foreign export corporation" and interest on any obligation which is a "qualified export asset." "Export property" was originally defined as property manufactured, produced, grown or extracted in the United States. This definition was modified by the Tax Reduction Act of 1975, P.L. 94-12, to exclude resources such as oil, gas, and minerals subject to a depletion allowance, as well as scarce products the export of which is prohibited or curtailed under the Export Administration Act of 1969. Furthermore, the President has the authority to exclude from export property any property which he determines to be in short supply. Receipts from exports subsidized by the U.S. Government or exports intended for use in the United States do not qualify as export property. A DISC may not engage in producing, growing, or manufacturing export property.

The gross assets test requires that at least 95 percent of the corporation's assets be qualified export assets. In general, qualified export assets are inventories of export property, necessary operational equipment and supplies, trade receivables from export sales (including commissions receivable), producer's loans, working capital, investments in related foreign export corporations, obligations issued, guaranteed, or insured by the Export-Import Bank or the Foreign Credit Insurance Association, and obligations of the Private Export Funding Corporation.

A DISC usually acquires export property from its parent or an affiliated corporation ("related suppliers") and then sells the property abroad; however, it may act simply as a commission agent on export sales of related suppliers. The method used for allocating income between a DISC and its related suppliers is therefore an important part of the DISC statute. The allocation is achieved through special inter-company pricing rules which permit the DISC to realize taxable income in an amount which does not exceed the greater of:

- (a) 4 percent of the qualified export receipts attributable to the sale of export property plus 10 percent of related "export promotion expenses," defined as ordinary and necessary expenses incurred to obtain qualified export receipts (referred to as the 4 percent method);

- (b) 50 percent of the combined taxable income of the DISC and its related supplier attributable to qualified export receipts plus 10 percent of related export promotion expenses (referred to as the 50-50 method); or
- (c) taxable income based upon the price actually charged the DISC by its related supplier if that price is justifiable on an arm's-length basis (referred to as the arm's-length method).

Statutory Amendments and Regulations

Legislation. A bill entitled "The Tax Reform Act of 1975," H.R. 10612, was passed by the House of Representatives on December 4, 1975, and sent to the Senate for consideration. The bill would apply an incremental method for the determination of DISC benefits by limiting them to profits on export sales above a base period amount, and would exclude certain products from DISC eligibility.

Currently, DISC benefits apply to profits on all of its eligible exports. Under the House bill, DISC benefits would be allowed only to the extent that a DISC's export gross receipts for the taxable year exceeded its "adjusted base period export gross receipts." That portion of the DISC's current year taxable income attributable to adjusted base period export gross receipts would be deemed distributed to the DISC's shareholders. The DISC's taxable income attributable to export gross receipts in excess of adjusted base period export gross receipts would be treated as under current law: 50 percent would be deemed distributed to the DISC's shareholders. "Adjusted base period export gross receipts" would be defined as 75 percent of a DISC's average of export gross receipts during the three taxable years of its base period. The base period years for 1976 through 1980 would be the taxable years 1972, 1973, and 1974. Each year, beginning in 1981, the base period would move forward one year. Special base period rules would apply to DISCs created after 1972. The incremental method of computing DISC benefits would be required for taxable years beginning after December 31, 1975.

The bill also contains a small DISC provision that would exempt DISCs with an adjusted taxable income of \$100,000 or less from the incremental rule. Such companies would continue to compute their DISC benefits as under present law.

The bill would also eliminate from DISC eligibility most sales of military equipment and agricultural products. Ineligible military equipment would include arms, ammunition, or implements of war designated in the munitions list published pursuant to the Mutual Security Act of 1954 (22 U.S.C. 1934), other than property which is to be used solely for nonmilitary purposes. The bill eliminates DISC eligibility for agricultural products, except those surplus commodities for which marketing quotas have been established by the Secretary of Agriculture under the Agricultural Adjustment Act of 1938 (7 U.S.C. 1281 et. seq.). The provisions pertaining to military equipment and agricultural products would generally apply to sales made after October 2, 1975.

The bill would also modify some of the provisions of the Tax Reduction Act of 1975. DISC benefits for certain natural resource products would be reinstated for exports made under binding contracts entered into before March 18, 1975, provided the contracts contained fixed price and quantity provisions. This reinstatement would apply for five years from March 18, 1975.

Regulations. Final regulations relating to the special inter-company pricing rules for DISCs and their related suppliers were issued by the Treasury Department on July 15, 1975. These final regulations adopted the proposed regulations with minor changes concerning combined taxable income, the no-loss rule, redetermination of transfer price or commissions subsequent to filing a return, and product grouping rules.

The payment rules governing DISC commissions and the rules for transfer of receivables at a discount are contained in new proposed regulations issued in 1975. These new rules were also reflected in re-proposed regulations under Section 993.

Foreign Official Reaction to DISC.

The European Economic Community lodged a formal complaint before the contracting parties of the General Agreement on Tariffs and Trade (GATT) in July 1972, asserting that DISC was incompatible with GATT obligations because it constituted a tax subsidy on exports. The United States entered a counter-complaint against the export tax practices of Belgium, France, and the Netherlands. On July 30, 1973, the GATT Council directed that a panel of tax experts be established to examine the issue. The panel of experts has been appointed, and its first session was held on March 16-18, 1976 in Geneva. The next session is planned for June 28-July 1, 1976.

Chapter 3 - General Statistical Information

This report covers the second full year of DISC operations. The tabulations are based on all Form 1120-DISC returns ^{1/} filed by active DISCs for taxable periods ending between July 1, 1973 and June 30, 1974, referred to as DISC year 1974. Information from 4,162 returns is included, compared to only 2,827 in DISC year 1973 (see Table 3-1). Table 3-2 presents 1974 data on qualified export receipts ^{2/} and net income by accounting periods.

DISC Income

Net income of all DISCs amounted to \$3.1 billion, double the amount reported in 1973. The ratio of net income (less deficits) to gross receipts ^{3/} was 7.1 percent, virtually unchanged from the year before (see Table 3-3). The ratio of net income to gross receipts (the profit margin on sales) for agricultural products was 3.1 percent, up from 2.3 percent a year earlier, although still well below the ratio for almost all other product classes. The average ratio of net income to gross receipts for manufactured products was 8.9 percent compared to 8.3 percent a year earlier. The profit margin on sales varied widely among product groups, from a high of 23.1 percent for drugs to a low of 2.7 percent for apparel.

DISCs and their related suppliers typically earn a relatively high profit margin on sales. The combined profit margin of about 17.3 percent apparently earned by DISCs and their related manufacturing suppliers is much higher than the combined profit margin of 8.4 percent estimated for manufacturing and distribution of similar goods in the domestic economy. The derivation of these combined profit margins is explained in the following paragraphs.

Because of the special inter-company pricing rules, explained in Chapter 2, if total profits on production and export combined exceed 8 percent a manufacturing company with a DISC subsidiary will, in

^{1/} Reproduced in Appendix B.

^{2/} Unless otherwise noted, all receipts figures include the full value of goods sold on a commission basis.

^{3/} DISC gross receipts are the sum of qualified export receipts and non-qualified gross receipts.

most cases, choose the 50-50 method of allocation. 4/ Since the average ratio of DISC income to gross receipts for all manufactured products was 8.9 percent, it appears that most DISC exports of manufactured products were priced under the 50-50 method. If so, the average ratio of the related suppliers' net income to DISC sales for manufactured products was approximately 8.4 percent. 5/ Thus, the combined profit margin of DISCs and their related suppliers obtained from producing and exporting manufactured products may have been as high as 17.3 percent 6/ of gross receipts.

Manufacturers sell some of their products directly to retailers or final purchasers and some to wholesalers. Exporting represents a distribution function similar to that performed by wholesalers in the domestic economy. Thus, in order to obtain a valid comparison between the combined profit margin on sales of DISCs and related suppliers and the profit margin on domestic production and sales, allowance has to be made for the profits of wholesalers.

In 1973, it appears that wholesaling added about 0.4 percentage points to the ratio between profits and sales for U.S. industry as a whole. The weighted average profit margin of domestic manufacturers

4/ If the ratio of combined income to gross receipts is less than 8 percent, it is generally advantageous for the transaction to be priced under the 4 percent method. Note that the special inter-company pricing rules apply only to transactions between a DISC and its "related supplier." DISCs exporting agricultural products as well as other DISCs acting as independent merchant exporters generally do not acquire products from a "related supplier." In such cases, DISC income is the actual profit on the transaction.

5/ The 8.4 percent figure is based on the 8.9 percent average ratio of DISC income to gross receipts for all manufactured products, adjusted for the inclusion in DISC income of 10 percent of export promotion expenses and of interest earned on qualified export assets.

6/ This figure is the sum of the 8.9 percent for DISCs exporting manufactured products and the (estimated) 8.4 percent for their related suppliers.

of the type of goods sold by DISCs was 8.0 percent in 1973. ^{7/} Thus, the combined profit margin on domestic production and sales was approximately 8.4 percent, well below the combined margin of 17.3 percent estimated for DISCs and related suppliers.

The higher margin on export activities can be explained by several factors. Firms tend to view exporting as a risky undertaking. Consequently, they may require a higher average net profit for export items. In addition, they may concentrate their export efforts on product lines with relatively high profit margins. Finally, special factors relating to price controls, exchange rate changes, and economic expansion may have been at work in the period covered by this report.

Commision Sales

A DISC may operate on both a buy-sell and a commission basis; available information is not sufficient to segregate sales and income data for these two types of activities. However, the 1,580 DISCs listing their major business activity ^{8/} as being commission merchants accounted for \$28.6 billion of gross receipts, and \$1.8 billion of net income (see Table 3-4). The ratio of net income to gross receipts for commission merchants was therefore 6.4 percent, compared with 8.3 percent for all other DISCs. Commission DISCs were active in all major product classes, as shown in Table 3-3.

Balance Sheet Data

Year-end balance sheet data are shown in Table 3-5. In order to qualify for DISC benefits, 95 percent of a DISC's assets at the end of each taxable year must consist of "qualified export assets." ^{9/} Total assets of DISCs amounted to \$5.9 billion, slightly more than double the previous year's figure. Of these assets, 99.8 percent were qualified export assets, of which 71 percent were trade receivables (accounts and notes receivable). The second largest asset item was export property, including inventory and qualified property held for lease. Only

^{7/} These two figures are based on data in U.S. Department of the Treasury, Preliminary Statistics of Income 1973: Corporation Income Tax Returns. The 8.0 percent figure is a weighted average using DISC exports by product groups as weights.

^{8/} "Major" business activity is the activity which generates the largest percentage of total receipts.

^{9/} See Chapter 2 for the definition of "qualified export assets."

192 firms held Export-Import Bank paper, in a total amount of \$258 million. 10/

On the liabilities and capital side, the largest item was accumulated DISC income amounting to \$3.9 billion, or 67 percent of liabilities and stockholders' equity combined. The cumulative total of reported DISC earnings through June 30, 1974 amounted to about \$4.7 billion of which \$0.7 billion was distributed as dividends. The dividends paid were \$1.6 billion less than the amount deemed to have been distributed (taxed) to shareholders. Retention of tax-paid earnings by DISCs presumably reflects the financial incentives involved--notably the favorable tax treatment of interest earned on their qualified receivables and other investments.

Income Statement

Combined income statement data are presented in Table 3-6. Out of total receipts 11/ of \$16,497 million, only \$74 million, less than one percent, were non-qualified receipts. While almost all of the qualified receipts consisted of receipts from property sales, \$208 million constituted receipts from other sources. The largest item in this category was interest income amounting to \$101 million.

As would be expected, the largest deduction was the deduction for cost of goods sold and cost of operations. The only other significant deduction was for export promotion expenses, amounting to \$466 million.

Geographic Destination of DISC Exports

The geographic destination of DISC exports is presented in Table 3-7, together with similar data for U.S. exports in calendar year 1973. 12/ With the exception of Canada and to a lesser extent Latin America, the geographic distribution of DISC exports closely corresponds to the geographic distribution of total U.S. exports. The

10/ Export-Import Bank paper can be expected to become a less important asset because the Bank now borrows through the Federal Financing Bank.

11/ Note that, for income statement purposes, receipts include only the commissions in the case of goods sold on a commission basis.

12/ Approximately 82 percent of the export sales reported on the tax returns covered in this report were shipped during calendar year 1973. Thus, the geographic destination of total U.S. exports in calendar year 1973 and total DISC exports in the period covered by this report should be roughly comparable.

portion of DISC exports shipped to Canada was considerably lower than the portion of total U.S. exports going to Canada. Western Hemisphere Trade Corporations may have been used as an alternative to DISC for exports to Canada and Latin America. The geographic distribution of DISC sales of manufactured products remained fairly constant between 1973 and 1974. However, the distribution of DISC exports of nonmanufactured products changed considerably.

Table 3-1

Historical Statistics, 1973 and 1974
(Dollar amounts in millions)

	:	1973 <u>1/</u>	:	1974
	:		:	
Number of returns, total		2,827		4,162
Full year		1,237		3,480
Part year		1,590		682
Gross receipts, total		\$22,012		\$44,409
Nonmanufactured products		5,267		14,860
Manufactured products		16,745		29,549
Qualified export receipts, total		21,539		43,585
Canada		3,938		6,288
Latin American Republics		2,232		4,367
Europe		7,384		14,427
Japan		2,791		5,650
U.S. destinations		256		1,692
All other and unallocated		4,938		11,161
Net income		1,566		3,149
Nonmanufactured products		189		580
Manufactured products		1,377		2,569
Total assets, end of year		2,826		5,873
Trade receivables		2,110		4,164
Other assets		716		1,709
Accumulated income, end of year		1,518		3,923
Office of the Secretary of the Treasury				
Office of Tax Analysis				

1/ These are revised figures. Consequently, they may differ slightly from those in the 1973 Annual Report.

Table 3-2

1/
Qualified Export Receipts and Net Income by Accounting Periods
(Dollar amounts in millions)

Accounting period ending	: Number of : : returns :	Qualified export receipts	Net income : (less deficits)
All returns	4,162	\$43,585	\$3,147.3
Full year returns, all periods	3,480	41,450	3,035.0
July 1973	139	470	31.0
August 1973	75	293	26.2
September 1973	172	830	40.9
October 1973	167	1,515	96.6
November 1973	102	683	76.6
December 1973	1,015	15,194	1,116.5
January 1974	632	10,132	888.7
February 1974	181	1,872	154.4
March 1974	290	3,404	240.6
April 1974	214	1,900	120.9
May 1974	151	1,101	64.8
June 1974	342	4,056	177.7
Part year returns, all periods	682	2,135	112.4
July 1973	41	34	2.4
August 1973	36	32	2.9
September 1973	44	139	7.1
October 1973	59	103	11.9
November 1973	22	77	6.9
December 1973	117	169	17.2
January 1974	113	155	14.4
February 1974	30	175	13.1
March 1974	51	502	8.6
April 1974	48	80	6.5
May 1974	47	44	2.8
June 1974	74	627	18.5
Office of the Secretary of the Treasury Office of Tax Analysis			

1/ As reported on Schedule N, Part I. Includes full value of goods sold on a commission basis.

Table 3-3

1/ Gross Receipts and Net Income by Major Product Class 2/
(Dollar amount in millions)

Major product class	All industries			Commission merchants		
	: Gross receipts :	: Net income :	: Ratio :	: Gross receipts :	: Net income :	: Ratio :
	\$	\$	(percent)	\$	\$	(percent)
Totals	\$ 44,409	\$ 3,147.3	7.1%	\$ 28,623	\$ 1,834.7	6.4%
Returns with no major product or service (mainly manufactured products)	3,356	225.2	6.7	3,159	211.6	6.7
All other returns	41,053	2,922.1	7.1	25,464	1,623.1	6.4
Nonmanufactured products and services						
Agricultural	14,561	570.1	3.9	9,177	343.0	3.7
Forestry	12,591	386.2	3.1	7,849	221.7	2.8
Coal mining	1,104	101.0	9.1	862	85.5	9.9
Other	1,252	16.4	6.5	174	14.0	8.0
	614	66.5	10.8	291	21.8	7.5
Manufactured products						
Ordnance and accessories	26,492	2,352.0	8.9	16,287	1,280.1	7.9
Food and kindred products	53	5.4	10.2	46	4.5	9.7
Meat products	1,120	71.1	6.4	515	29.0	5.6
Fruits, vegetables, seafood	303	17.8	5.9			
Tobacco manufactures	125	11.1	8.9			
Cigarettes	223	21.0	9.4	179	16.3	9.1
Tobacco stemming and redrying	182	17.4	9.6			
Textile mill products	17	.6	3.6			
Apparel, etc.	523	33.2	6.4	336	19.0	5.7
Lumber, etc., except furniture	336	9.1	2.7	278	4.0	1.4
Saw and planing mill products	550	63.3	11.5	213	23.2	10.9
Millwork, veneer, etc.	275	34.0	12.4			
Furniture and fixtures	76	9.2	12.1			
Paper and allied products	20	1.2	6.1	6	.5	7.6
Printing, publishing, etc.	571	46.5	8.1	301	19.5	6.5
Chemicals and allied products	133	17.1	12.9	69	8.4	12.2
Inorganic, organic chemicals	3,815	522.1	13.7	1,982	184.8	9.3
Plastics materials, etc.	761	75.2	9.9			
Drugs	988	99.8	10.1			
Agricultural	331	76.4	23.1			
	392	51.6	13.2			

Table 3-3 continued

Major product class	All industries			Commission merchants		
	Gross receipts	Net income	Ratio 3/ : (percent)	Gross receipts	Net income	Ratio 3/ : (percent)
Petroleum and related products	\$ 326	\$ 32.4	9.9%	\$ 43	\$ 2.1	4.9%
Rubber and miscellaneous plastic products	106	10.8	10.2	74	6.3	8.5
Leather and leather products	178	5.4	3.0	71	2.8	4.0
Stone, clay, glass and concrete products	195	24.1	12.3	155	18.8	12.1
Primary metal industries	866	67.9	7.8	501	42.1	8.4
Iron and steel foundries	30	2.8	9.6			
Blast furnaces, steel works, etc.	156	8.6	5.5			
Nonferrous foundries	28	17.9	6.4			
Fabricated metal products, except ordnance, machinery and transportation equipment	630	57.0	9.1	365	31.4	8.6
Structural metal products	73	5.1	7.0			
Cutlery, etc.	26	3.1	12.0			
Heating and plumbing	39	2.2	5.5			
Machinery, except electrical	4,904	378.6	7.7	3,978	289.2	7.3
Engines and turbines	62	5.1	8.2			
Farm machinery and equipment	362	18.9	5.3			
Construction, mining, etc.	2,724	150.4	5.5			
Metal working	174	12.6	7.3			
Special industry	752	56.4	7.5			
Office, etc.	763	80.2	10.5	2,037	183.1	9.0
Electrical machinery and equipment	2,588	240.9	9.3			
Household appliances	128	11.9	9.3			
Radio and TV sets	166	14.2	8.5			
Communications equipment	166	17.7	10.7			
Electronic components, etc.	904	80.8	8.9			
Transportation and distribution equipment	552	61.1	11.1			
Transportation equipment	7,214	502.1	7.0	4,241	304.3	7.2
Motor vehicles and equipment	3,525	238.7	6.8			
Aircraft and parts	2,327	173.7	7.5			
Prof. and scientific instruments, etc.	1,248	169.7	13.6	538	57.3	10.7
Research instruments	250	33.6	13.4			
Physical measuring instruments	210	19.4	9.2			
Surgical, medical, dental, etc.	123	14.0	11.4			
All other manufactures	897	72.9	8.1	359	33.6	9.4

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- 1/ Qualified and nonqualified gross receipts; includes full value of goods on a commission basis.
 2/ Classification is based on the product or product class accounting for 50 percent or more of gross receipts.
 3/ Less deficits. Deficits for all industries amounted to \$1,414,000, reported on 207 returns; deficits for commission merchants amounted to \$1,000 on 3 returns.

Table 3-4

1/
Gross Receipts and Net Income by Industry
(Dollar amounts in millions)

Industry	: : Number : of : returns	: : Gross : receipts	: : Net : income	: : Ratio of net income : to gross receipts 2/ : (percent)
All industries	4,162	\$ 44,409	\$ 3,148.7	7.1%
Wholesale trade, total	4,057	43,056	3,039.6	7.1
Commission merchants	1,580	28,623	1,834.7	6.4
Groceries and related products	141	3,405	137.0	4.0
Machinery, equipment and supplies	650	1,571	159.6	10.2
Motor vehicles and automotive equipment	77	1,378	76.1	5.5
Drugs, chemicals and allied products	216	1,720	328.5	19.1
Apparel, piece goods, and notions	121	193	16.3	8.4
Farm-product raw materials	82	1,688	57.3	3.4
Electrical goods	294	552	58.7	10.6
Hardware, plumbing and heating equipment	82	132	10.8	8.1
Metals and minerals, except petroleum and scrap	103	500	28.8	5.8
Petroleum and petroleum products	23	344	36.8	10.7
Alcoholic beverages	5	15	2.0	13.0
Paper and paper products	54	277	26.0	9.4
Lumber and construction materials	113	579	56.4	9.7
Other wholesale trade	516	2,078	210.6	10.1
Retail trade	43	1,211	78.3	6.5
Finance, insurance, and real estate	8	37	25.1	67.2
Services	43	86	3.8	4.4
Other industries	11	19	1.9	10.0
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Note: Ratios were calculated from unrounded data.

1/ Qualified and nonqualified gross receipts; includes full value of goods sold on a commission basis.

2/ Ratios computed from unrounded data.

Table 3-5

Balance Sheet Data
(Millions of dollars)

	:	:	:	:	:	Wholesale trade		
	:	All	:	:	:	Commission	:	:
	:	industries	:	Total	:	merchants	:	Other
Total assets	\$	5,873	\$	5,576	\$	2,412	\$	3,163
Qualified assets, total		5,859		5,562		2,411		3,152
Working capital		256		242		52		190
Export-Import Bank obligations		258		208		58		150
Trade receivables		4,164		4,086		1,804		2,282
Export property		444		294		24		269
Producer's loans		254		252		110		143
Other		483		480		363		117
Nonqualified assets		14		13		1		12
Total liabilities and capital		5,873		5,576		2,412		3,164
Liabilities		1,827		1,722		249		1,473
Current		1,573		1,471		199		1,273
Other		254		251		50		200
Capital accounts		4,046		3,854		2,163		1,691
Capital stock and paid-in surplus		89		42		17		25
Accumulated income		3,923		3,778		2,137		1,641
Other surplus accounts		34		34		9		25

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Table 3-6
Income Statement Data

	: Number of returns	: Amount :(millions)
Total receipts	4,042	\$16,497
Qualified export receipts, total		
Qualified receipts from property sales	4,036	16,445
Other qualified receipts	3,985	16,237
Leasing of export property	1,305	208
Services related to qualified exports	36	10
Engineering and architectural services	174	25
Qualified dividends	49	45
Interest on producers loans	9	22
Other interest	377	8
Nonqualified receipts, total	773	93
Total deductions	737	74
Cost of sales and operations		
Export promotion expenses	3,658	13,372
Other expenses	2,364	12,566
	2,436	466
	3,279	340
Total receipts less total deductions	4,134	3,125
Net income (less deficits)	4,134	3,147
Tax deferred and taxable income	3,919	3,149
Deemed distributions	3,919	1,579
Actual distributions	1,747	649

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Table 3-7

Geographic Destination of
DISC Exports and Total U.S. Exports
(Dollar amounts in millions)

Area	Qualified export receipts						U.S. exports	
	All products		Nonmanufactured products		Manufactured products		in calendar year	
	Percent		Percent		Percent		1973 ^{1/}	
	Amount	of total	Amount	of total	Amount	of total	Amount	of total
Total	\$43,585		\$14,111		\$29,473		\$71,314	
Less: U.S. destinations	1,692		1,117		575			
Unallocated	2,642		1,630		1,012		677	
Allocated	39,251	100.0%	11,364	100.0%	27,886	100.0%	70,637	100.0%
Canada	6,288	16.0	214	1.9	6,073	21.8	15,073	21.3
Latin American Republics	4,367	11.1	965	8.5	3,402	12.2	8,921	12.6
Brazil	1,061	2.7	192	1.7	869	3.1	1,916	2.7
Mexico	1,165	3.0	282	2.5	883	3.2	2,937	4.2
Venezuela	569	1.5	109	1.0	460	1.7	1,033	1.5
Western Europe, total	12,937	33.0	3,617	31.8	9,320	33.4	21,360	30.2
Belgium	725	1.9	124	1.1	600	2.2	1,622	2.3
Denmark	210	.5	88	.8	122	.4	404	.6
France	1,383	3.5	174	1.5	1,209	4.3	2,263	3.2
Greece	288	.7	73	.6	216	.8	375	.5
Italy	1,160	3.0	339	3.0	821	2.9	2,119	3.0
Netherlands	1,801	4.6	1,002	8.8	799	2.9	2,860	4.1
Norway	215	.6	55	.5	160	.6	297	.4
Spain	1,071	2.7	419	3.7	653	2.3	1,319	1.9
Sweden	315	.8	25	.2	290	1.0	542	.8
Switzerland	474	1.2	34	.3	440	1.6	960	1.4
United Kingdom	1,885	4.8	203	1.8	1,682	6.0	3,564	5.1
West Germany	2,346	6.0	580	5.1	1,766	6.3	3,756	5.3
Eastern Europe, total	1,490	3.8	1,111	10.0	379	1.4	1,797	2.5
Poland	219	.6	177	1.6	42	.2	350	.5
U.S.S.R.	888	2.3	661	5.8	227	.8	1,190	1.7
Africa, total	1,734	4.4	408	3.6	1,326	4.8	2,307	3.3
South Africa	452	1.2	11	.1	441	1.6	746	1.1
Asia, total ^{2/}	11,251	28.7	4,958	43.6	6,293	22.6	18,425	26.1
Iran	505	1.3	26	.2	479	1.7	772	1.1
Israel	380	1.0	85	.8	295	1.1	962	1.4
Saudi Arabia	293	.8	16	.1	277	1.0	442	.6
China, Peoples Republic of	278	.7	191	1.7	87	.3	690	1.0
China, Republic of	1,285	3.3	903	8.0	382	1.4	1,168	1.7
Hong Kong	254	.7	46	.4	209	.8	740	1.1
India	301	.8	160	1.4	141	.5	525	.7
Japan	5,650	14.4	2,940	25.9	2,710	9.7	8,312	11.8
Philippines	234	.6	36	.3	199	.7	496	.7
Singapore	247	.6	7	--	240	.9	684	1.0
Korea, Republic of	538	1.4	299	2.6	240	.9	1,243	1.8
All other areas, total	1,113	2.8	91	.8	1,092	3.9	2,753	3.9
Australia	840	2.1	65	.6	776	2.8	1,439	2.0

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^{1/} Domestic and foreign merchandise. The latter amounted to \$1,091 million. Source: U.S. Department of Commerce, Highlights of Exports and Imports, December 1973, pp. 44-46.

^{2/} Includes Middle East.

Chapter 4 - The Effect of DISC on Tax Revenue

Revenue Cost

The revenue cost of DISC arises from the deferral of tax on one-half of DISC income. The estimated revenue cost associated with the \$3.1 billion of DISC earnings in DISC year 1974 is \$756 million. This revenue cost figure is useful for making comparisons with the export and employment figures contained in Chapter 5. However, for most purposes, revenue estimates are expressed on a calendar year liability basis or on a fiscal year receipts basis. These revenue estimates require timing adjustments either to reflect the calendar year when the deferred tax liability was incurred or to reflect the fiscal year when the tax payment would have been collected if there had been no deferral.

The revenue cost of DISC expressed on a calendar year liability basis is estimated at \$350 million in 1972 and \$720 million in 1973. 1/ Estimated foregone tax collections in fiscal years 1972 and 1973 are \$105 million and \$460 million, respectively, and are projected to reach \$1,580 million in fiscal year 1977. Estimates and projections of revenue costs expressed on a calendar year liability basis and on a fiscal year receipts basis appear in Table 4-1. The projections in Table 4-1 differ somewhat from the estimates contained in the Budget; 2/ the 1974 data used in this report were not available when the Budget estimates were prepared.

The DISC revenue cost estimates are based on known or projected DISC earnings. They take no account of the fact that, in the absence of DISC, total exports might be different, or that companies might find other ways, within the existing law, to "shelter" some of their export profits from current U.S. taxation.

Only the tax liability estimates for calendar years 1972 and 1973 are based on actual data from DISC tax returns. The estimates for 1974 through 1977 are based on projections of total U.S. exports and the proportion of U.S. exports channelled through DISCs. It is assumed that the ratio of DISC net income to gross sales receipts will not vary from the average of 7.1 percent prevailing in DISC years 1973 and 1974.

1/ These estimates are based on actual DISC returns filed and a calendar year apportionment of the reported income. The apportionment is shown in Appendix A.

2/ Executive Office of the President, Special Analyses, Budget of the United States Government, Fiscal Year 1977, p. 125.

Distribution of DISC Benefits

DISC benefits are concentrated among large firms. Fifty-two percent of the net income of the 2,333 DISCs with corporate owners for which asset size are available accrued to 11 percent of the DISCs whose parent companies' assets were at least \$250 million (see Table 4-2).

Data on gross receipts and net income by size class of gross receipts appear in Table 4-3. Data on gross receipts and taxable income by size class of taxable income are contained in Table 4-4.

DISC Elections

A total of 8,382 DISC elections had been made through February 1976 (see Table 4-5). This represents an increase of 1,082 or 15 percent over February 1975. The continued increase in DISC elections supports the assumption that the use of DISC will increase over time. However, some DISCs are inactive, many companies have more than one DISC, and the data are not adjusted for DISCs that have liquidated or withdrawn their elections. 3/

Audit Results

DISC audit results for examinations closed between July 1, 1974 and December 31, 1975 are summarized in Table 4-6. 4/ The table includes only the results of examinations in which specially trained international examiners participated. There were 363 audits performed with 202 (56 percent of the total) resulting in adjustments

3/ For example, for accounting periods ending between July 1, 1973 and June 30, 1974, 4,162 DISC returns were filed while 5,570 DISC elections had been made as of June 30, 1974. The difference between these two figures reflects both inactive DISCs and the fact that some electing DISCs had not yet reached the close of their first accounting period.

4/ As a result of the considerable time lag between the end of the taxable year, the filing of a DISC return, and the close of an examination by the IRS, the audit results contained in Table 4-6 represent returns filed at much earlier dates than reflected in the closing dates of the examinations.

to DISC income. The effect of these 202 adjustments was to propose a net decrease in DISC income of \$69 million. The proposed decrease in DISC income, if agreed to by the taxpayers or sustained in the courts, would result in additional tax liability of approximately \$16 million.

The average decrease in DISC income per audited return was \$190,000, resulting in proposed additional tax liability of \$46,000 per audited return. The largest proposed changes were based on adjustments made with respect to inter-company pricing rules and the qualified export assets and receipts tests. Adjustments based on inter-company pricing rules ordinarily caused a reallocation of some income from the DISC to the related suppliers. Failure to meet the qualified assets or receipts tests resulted in disqualification of the DISC; all DISC income then became taxable unless a qualifying distribution was made. Six DISCs failed to meet the minimum organizational requirements of election, capitalization, and separate bank account, resulting in disqualification of these DISCs and a decrease in DISC income of \$747,000. In addition, four parent companies failed to make timely commission payments to their respective DISCs, resulting in substantial decreases in DISC income.

Table 4-1
Revenue Cost Estimates and Projections ^{1/}
(Millions of dollars)

Year	:	Amount
<hr/>		
Calendar year tax liability		
1972		\$ 350
1973		720
1974		1,030
1975		1,330
1976		1,510
1977		1,670
Fiscal year tax receipts ^{2/}		
1972		\$ 105
1973		460
1974		810
1975		1,120
1976		1,380
TQ ^{3/}		226
1977		1,580

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1/ The 1972 and 1973 figures are estimated from DISC returns. All other figures are projections. The 1975, 1976, and 1977 figures reflect the exclusion of natural resource products as provided in the Tax Reduction Act of 1975. All estimates are based on the assumption that in the absence of DISC, the earnings would be subject to tax at the 48 percent corporate rate.

2/ Estimated on the basis of a "normal" relation to calendar year tax liability figures. For 1976 and prior fiscal years, the normal relation assumes that the fiscal year liability equals 70 percent of the preceding calendar year liability plus 30 percent of the current calendar year liability. For 1977 and succeeding fiscal years, the relation assumes that the fiscal year liability equals 55 percent of the preceding calendar year liability plus 45 percent of the current calendar year liability. The transition quarter (TQ) estimate is based on 15 percent of the 1976 calendar year tax liability.

3/ TQ - The transition quarter covers the period from July 1, 1976 through September 30, 1976.

Table 4-2
Gross Receipts and Net Income by Asset Size of Corporate Majority Shareholder
(Dollar amounts in millions)

Asset size of corporate majority shareholder	Returns		Gross receipts		Net income ^{1/}	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total
<u>All returns</u>						
All returns	4,162	100.0	\$44,409.0	100.0	\$3,147.3	100.0
Multiple corporate shareholders	137	3.3	120.7	.3	12.1	.4
Noncorporate majority shareholder	583	14.0	778.9	1.8	49.2	1.6
Type of shareholder not available	58	1.4	161.6	.4	12.4	.4
Returns with majority corporate shareholder	3,384	81.3	43,347.9	97.6	3,073.6	97.7
<u>Returns with majority corporate shareholders</u>						
Total	3,384		\$43,347.9		\$3,073.6	
Asset size not available	1,051		2,049.0		151.0	
All other	2,333	100.0%	41,486.8	100.0%	2,923.2	100.0%
\$1 under \$100,000	37	1.6	232.1	.6	21.2	.7
\$100,000 under \$1,000,000	258	11.1	288.1	.7	22.2	.8
\$1,000,000 under \$5,000,000	541	23.2	1,196.1	2.9	91.2	3.1
\$5,000,000 under \$10,000,000	253	10.8	1,210.5	2.9	61.6	2.1
\$10,000,000 under \$50,000,000	596	25.5	6,646.4	16.0	357.2	12.2
\$50,000,000 under \$100,000,000	165	7.1	1,590.7	3.8	129.2	4.4
\$100,000,000 under \$250,000,000	234	10.0	10,071.7	24.3	718.1	24.6
\$250,000,000 or more	249	10.7	20,251.2	48.8	1,522.0	52.1

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^{1/} Less deficits.

Table 4-3

Gross Receipts and Net Income by Size of Gross Receipts
(Dollar amounts in millions)

Size of gross receipts	Returns		Gross receipts		Net income	
	: Number :	: Percent of total :	: Amount :	: Percent of total :	: Amount :	: Percent of total :
All returns						
Part year returns	4,162	100.0%	\$44,409.0	100.0%	\$3,148.7	100.0%
Full year returns	682	16.4	2,144.1	4.8	112.5	3.6
	3,480	83.6	42,264.9	95.2	3,036.2	96.4
All returns						
Full year returns						
Total	3,480	100.0%	\$42,264.9	100.0%	\$3,036.2	100.0%
Zero receipts	79	2.3	--	--	--	--
\$1 under \$50,000	189	5.4	4.4	*	1.3	*
\$50,000 under \$250,000	510	14.7	74.9	*	14.9	.5
\$250,000 under \$1,000,000	904	26.0	509.0	1.2	61.8	2.0
\$1,000,000 under \$10,000,000	1,322	38.0	4,480.3	10.6	404.2	13.3
\$10,000,000 under \$100,000,000	417	12.0	12,297.4	29.1	985.8	32.5
\$100,000,000 under \$250,000,000	36	1.0	5,173.1	12.2	382.9	12.6
\$250,000,000 or more	23	.7	19,725.8	46.7	1,185.2	39.0

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* Less than 0.5 percent

Table 4-4

1/
Gross Receipts and Taxable Income by Size of Taxable Income
for All Active DISCs
(Dollar amounts in millions)

Size of taxable income	Returns		Gross receipts		Taxable income	
	Number	Percent of total	Amount	Percent of total	Amount	Percent of total
<u>All returns</u>						
All returns	4,162	100.0%	\$44,409.0	100.0%	\$3,148.5	100.0%
Returns with no taxable income	242	5.8	118.7	.3	-	-
Returns with taxable income	3,920	94.2	44,290.3	99.7	3,148.5	100.0%
<u>Returns with taxable income</u>						
Total	3,920	100.0%	44,290.4	100.0%	3,148.5	100.0%
\$1 under \$100,000	2,124	54.2	1,617.4	3.7	73.2	2.3
\$100,000 under \$200,000	545	73.9	1,285.7	2.9	77.9	2.5
\$200,000 under \$1,000,000	842	21.5	5,626.8	12.7	379.9	12.1
\$1,000,000 under \$5,000,000	314	8.0	9,505.7	21.5	674.4	21.4
\$5,000,000 under \$10,000,000	52	1.3	4,103.4	9.3	369.1	11.7
\$10,000,000 under \$20,000,000	18	.5	3,354.5	7.6	247.8	7.9
\$20,000,000 or more	25	.6	18,796.9	42.4	1,326.0	42.1

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1/ Tax deferred income and income taxable to shareholders. This figure is net income (gross income less total deductions) less net operating loss deductions and dividends-received deductions. The size distribution of taxable income is slightly distorted by the inclusion of part year returns.

Table 4-5
DISC Elections

End of period	:	Cumulative total
1972. - March	:	1,136
June	:	2,412
September	:	3,049
December	:	3,439
1973 - March	:	3,842
June	:	4,164
September	:	4,466
December	:	4,825
1974 - March	:	5,184
June	:	5,570
September	:	6,569
December	:	6,738
1975 - March	:	7,293
June	:	7,653
September	:	7,956
December	:	8,258
1976 - February	:	8,382

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Table 4-6

1/
DISC Audit Results
July 1, 1974 - December 31, 1975

Basis for adjustment	:	Number	:	Proposed
	:	of	:	adjustment
	:	returns	:	(thousands)
(1) Intercompany pricing rules				
Increase in DISC income		5		\$ 421 2/
Decrease in DISC income		138		35,163 2/
(2) Qualified export assets test				
Decrease in DISC income		20		13,909
(3) Qualified export receipts test				
Decrease in DISC income		11		14,384
(4) Organizational requirements 3/				
Decrease in DISC income		6		747
(5) Other adjustments				
Increase in DISC income		7		287
Decrease in DISC income		15		5,636
Total				
Number of audits performed		363		
Net adjustments		202		69,131
Adjustments resulting in increases in DISC income		12		707
Adjustments resulting in decreases in DISC income		190		69,839

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1/ This table contains proposed adjustments to DISC income. These proposed adjustments are subject to agreement by the taxpayer, or settlement in court.

2/ Includes small adjustments with regard to interest charged to the DISC on accounts payable to the parent.

3/ Organizational requirements include: timeliness of DISC election, capitalization and bank account requirement.

Chapter 5 - Effect on Exports and Employment

The extent to which DISC has increased exports is difficult to estimate for several reasons. Under a system of flexible exchange rates, an increase in exports may affect exchange rates in such a way as to limit, and perhaps completely offset, any trade advantage induced by an initial export expansion. Any exchange rate change induced by DISC related exports would encourage additional imports and possibly affect the capital account leaving indeterminate the effect on the balance of payments. Secondly, there is a time lag between the creation of a DISC and its full impact on exports. Finally, comparisons between DISC exports and total U.S. exports are clouded by statistical problems. ^{1/} Despite these difficulties, an attempt has been made to estimate the additional exports attributable to DISC. No allowance has been made in this analysis for the effect of flexible exchange rates and time lags.

The method used to calculate the additional effect of DISC on exports is based on several assumptions:

- (1) DISC and non-DISC exports are equally affected by all economic events apart from DISC, such as devaluation of the dollar, expansion of foreign income, and various other international developments.
- (2) The growth rate for all exports by affiliated groups of corporations which have DISCs in excess of the growth rate for exports of similar products by non-DISC companies reflects the DISC stimulus, even though part of any group's exports are not sold through the DISC.
- (3) For a period of years, firms which establish a DISC should experience a faster export growth rate than firms without a DISC. However, after the adjustment to DISC has occurred, DISC and non-DISC exports should grow at the same rate, but the exports of DISC firms should then be at a higher level than they otherwise would have been.
- (4) The DISC effect equals the difference between actual U.S. exports during a given accounting period and an estimate of the hypothetical level

^{1/} The 1973 Annual Report presents a detailed explanation of time period and product class incomparabilities between DISC exports and total U.S. exports. For this report, a substantial effort has been made to reduce these incomparabilities.

of U.S. exports if all firms had experienced the same export expansion as non-DISC exporters since 1971 (the last year before introduction of DISC).

The principal results of applying this method to estimate additional exports are summarized in Table 5-1. The incremental DISC effect during DISC year 1973 2/ is estimated to have been \$1.9 billion. Of this amount, \$0.2 billion is attributed to nonmanufactured products, and \$1.7 billion is attributed to manufactured products.

The incremental DISC effect during DISC year 1974 was an estimated \$2.2 billion. Of this amount, \$0.2 billion is attributed to non-manufactured products, and \$1.9 billion is attributed to manufactured products.

The total DISC effect in 1974 of \$4.6 billion represents the sum of the incremental 1973 DISC effect, an adjustment to reflect "normal" growth in the DISC-stimulated increment in 1973 exports, 3/ and the incremental 1974 DISC effect. To illustrate the calculation of the total DISC effect, suppose that overall U.S. exports are growing 10 percent annually without DISC. Firm X has \$400 of exports in 1972. Because of the growth of overall U.S. exports, this amount would ordinarily grow by 10 percent to \$440 in 1973. However, Firm X forms a DISC at the beginning of 1973, and as a result of the DISC increases its exports in 1973 to \$500. The incremental DISC effect in 1973 for Firm X is therefore \$60 (\$500 less the \$440 its 1973 exports would have been without DISC). Firm X experiences no further incremental DISC effect in 1974 or later years. However, overall U.S. exports continue to grow at a 10 percent annual rate in 1974, and Firm X's exports likewise grow by 10 percent to \$550. Of this amount, \$60 represents the incremental increase in exports because of DISC, and \$6 represents the 10 percent "normal" growth in the 1973 incremental DISC effect. Suppose further that Firm Y forms a DISC in 1974, and increases its exports by \$100 in 1974 as a result of the DISC. The total DISC effect for 1974 in this example is therefore \$166: the \$60 incremental effect on Firm X's

2/ DISC years differ from calendar years because the DISC returns covered in the Annual Reports have a variety of accounting periods. DISC year 1972 refers to accounting periods ending between July 1, 1971 and June 30, 1972; DISC year 1973 refers to accounting periods ending between July 1, 1972 and June 30, 1973; and DISC year 1974 refers to accounting periods ending between July 1, 1973 and June 30, 1974.

3/ The adjustment to reflect "normal" growth in the 1973 incremental DISC effect is calculated by multiplying the amount of DISC-stimulated exports in 1973 by the rate of growth of non-DISC exports from 1973 to 1974.

exports for 1973, plus \$6 of "normal" growth in 1974 on Firm X's 1973 incremental DISC effect, plus the \$100 incremental effect on Firm Y's exports in 1974.

These estimates of the DISC effect must be viewed with extreme caution. Other statistical methods might produce different estimates. The method used here rests on the fundamental assumption that DISC and non-DISC exports are the same in all basic respects except the presence of a DISC. However, there may be numerous differences between DISC and non-DISC firms in product lines, company size, attention to export markets, and other characteristics, all of which may affect relative export performance. Finally, as noted above, no allowance has been made for the effect of flexible exchange rates.

Statistical Procedures

The estimates in Table 5-1 are based on a number of detailed statistical procedures and underlying estimates which are set forth in Tables 5-2 and 5-3. The underlying estimates for changes from 1972 to 1973 appear in Table 5-2. The underlying estimates for changes from 1973 to 1974 appear in Table 5-3. The starting point in constructing both these tables was to estimate the export growth experience of DISCs.

The estimates in Table 5-3 are based on 1,802 full year active 1974 DISC returns which reported current year and first preceding year gross receipts for the DISC and related corporations. ^{4/} Using the growth rates from these returns, and the reported data on total 1974 exports of all DISCs, estimates were made by product class of the hypothetical or actual exports in 1973 of all 1974 DISCs (whether or not the DISC was in existence in 1973).

A similar procedure was used in Table 5-2 to estimate the export growth experience between 1972 and 1973 of all 1973 DISCs. However, for Table 5-2 purposes, DISC exports for 1973 represent data reported on 1973 DISC returns. The estimates for 1972 are based on 322 full year active 1973 DISC returns. ^{5/}

The next step in constructing Tables 5-2 and 5-3 was to estimate total U.S. exports for periods corresponding to DISC accounting periods. For example, accounting periods for DISC year 1974 end between July 1, 1973 and June 30, 1974. Therefore, 12 month totals for U.S. exports by product class were calculated for periods ending

^{4/} Form 1120-DISC, Schedule N, Part II, Section B. Reporting firms covered 69 percent of exports of DISCs and related firms in 1974.

^{5/} Reporting firms covered 58 percent of exports of DISCs and related firms in 1973.

in July 1973 through June 1974. 6/ A weighted composite of these 12 month totals for each product was then constructed using the proportions of DISC exports of the product in corresponding periods as weights. Similar calculations were made to estimate total U.S. exports for DISC years 1972 and 1973.

The third step in constructing Tables 5-2 and 5-3 was to subtract DISC exports from total U.S. exports to obtain estimates of non-DISC exports.

The growth rates from 1973 to 1974 for non-DISC exports by product were applied to 1973 total U.S. exports to estimate what 1974 total U.S. exports would have been in the absence of DISC. 7/ The difference between the sum of these figures and total actual U.S. exports in 1974 represents the incremental effect of DISC on U.S. exports from 1973 to 1974. The incremental effect of DISC on U.S. exports between 1972 and 1973 was estimated in a similar manner.

Employment Effect

Whether additional exports create additional jobs depends on the state of the domestic economy. During a period of relatively high unemployment and low capacity utilization, additional exports will tend to raise the level of employment. During a period of full employment, additional exports will tend to shift sales from domestic to foreign markets, and add to any inflationary pressures already present in the economy. A substantial level of DISC activity over a period of years would tend to substitute increased jobs in the export sector for jobs in the rest of the economy.

An estimate of the number of jobs associated with the additional exports attributed to DISC can be obtained by dividing the amount of additional exports by an average figure of output per job in the export sector. In 1973 (the calendar year most nearly corresponding to the DISC year 1974), each \$20,000 of U.S. domestic merchandise

6/ U.S. Department of Commerce, U.S. Exports-Schedule B Commodity by Country, Report FT 410, various issues. Schedule B commodities were roughly converted to Standard Industrial Classification commodity classifications.

7/ When DISC exports exceed approximately 80 percent of total U.S. exports of a product, the distinction between DISC and non-DISC exports becomes statistically unreliable, and it is therefore assumed that the "true" non-DISC export growth rate for the product is the same as the DISC growth rate.

exports provided one job. 8/ This figure of \$20,000 per job, when divided into the estimated \$4.6 billion additional exports attributable to DISC in 1974, results in an estimate of 230,000 jobs.

It is uncertain whether this figure represents additional jobs. Unemployment would not necessarily have been higher by 230,000 persons if the additional exports had not occurred. Instead, the output produced by some of these 230,000 persons might have been sold within the United States. The unemployment rate averaged 4.9 percent in 1973 and rose only slightly, to an average of 5.1 percent, in the first six months of 1974. The capacity utilization rate in manufacturing, though not unduly high by historical standards, was rising from early 1972 to late in 1973. Prices, as measured by the GNP deflator, rose at an annual rate of more than 8 percent from the first quarter of 1973 to the second quarter of 1974. Under these circumstances, it is probable that some of the additional exports generated by DISC were at the expense of domestic sales, and did not contribute to overall employment levels.

Moreover, this analysis does not take into account the impact of DISC on the exchange rate of the dollar, and the resulting changes in U.S. imports and non-DISC exports. Nor does it take into account the possible "multiplier" effect of DISC-related employment stimulus. Finally, the employment estimate is based on the average relation between output and employment in 1973, and does not reflect possible increases in output per job normally associated with rising employment.

While a complete evaluation of the employment effect of DISC in comparison to other tax measures is beyond the scope of this report, two points should be emphasized. First, the employment impact of Federal tax policies is best examined in terms of the overall budget rather than in terms of specific tax measures. The employment effect of individual tax reductions may be offset and even reversed by other tax changes, by expenditure decisions, and by the inflationary repercussions of a larger Federal deficit.

Secondly, there are many possible tax measures that, when analyzed in isolation, would appear to increase the number of jobs. An increase in the investment tax credit, a further liberalization of depreciation allowances, or a general reduction in tax rates are among those measures that could be used to stimulate employment. A complete evaluation of the employment effect of DISC would need to take into account the revenue costs and job impact of possible alternative tax changes.

8/ Statistical Abstract of the United States, 1975, Table 1363. The number of jobs attributable to merchandise exports in 1973 was 3,473,000.

Table 5-1

Estimates of Total Effect of DISC on
Exports in DISC Year 1974
(Millions of dollars)

<u>All products, total</u>	<u>\$4,574</u>
Incremental effect in DISC year 1973	1,908
"Normal" growth in the 1973 incremental DISC effect	497
Incremental effect in DISC year 1974	2,169
 <u>Nonmanufactured products, total</u>	 <u>499</u>
Incremental DISC effect in DISC year 1973	189
"Normal" growth in the 1973 incremental DISC effect	70
Incremental DISC effect in DISC year 1974	240
 <u>Manufactured products, total</u>	 <u>4,076</u>
Incremental DISC effect in DISC year 1973	1,720
"Normal" growth in the 1973 incremental DISC effect	426
Incremental DISC effect in 1974	1,930

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Note: See text for assumptions and limitations applicable to these estimates.

Table 5-2

Incremental DISC Effect
to DISC Year 1973
(Millions of dollars)

Product	DISC year 1972			DISC year 1973					Estimated U.S. : Exports with- out DISC 1/ : DISC effect 2/
	Total U.S. : Exports of 1973 DISCs	Non-DISC : Exports	Total U.S. : Exports	DISC : Exports	Non-DISC : Exports	Estimated U.S. : Exports with- out DISC 1/ : DISC effect 2/			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
All products, total	\$43,974	\$17,718	26,255	\$51,929	\$22,012	\$29,917	\$50,021 3/	\$1,908	
Nonmanufactured products, total	7,071	2,719	4,353	10,725	4,669	6,056	10,536 3/	189	
Grains and soybeans	3,487	1,921	1,566	6,595	3,604	2,992	6,595 4/	-	
Other agricultural products	1,728	422	1,306	2,031	596	1,436	1,899	132	
Other nonmanufactured products	1,856	376	1,480	2,098	470	1,629	2,042	57	
Manufactured products, total	36,902	15,000	21,903	41,204	17,343	23,861	39,484 3/	1,720	
Food and kindred products	2,760	335	2,425	3,361	361	3,000	3,361 4/	-	
Textile mill products	585	134	451	711	181	530	687	24	
Lumber and related products 5/	651	454	196	1,039	750	289	956	83	
Paper and allied products	1,070	366	704	1,120	413	707	1,074	46	
Chemicals and allied products	4,158	1,852	2,305	4,469	2,147	2,323	4,189	280	
Primary metal products	1,258	344	913	1,411	413	998	1,374	37	
Fabricated metal products, e.e.c.	1,940	253	1,687	2,143	318	1,826	2,099	44	
Machinery, except electrical	8,544	2,988	5,556	9,635	3,854	5,780	8,889	746	
Electrical machinery and equipment	3,218	1,230	1,988	3,908	1,481	2,427	3,908 4/	-	
Transportation equipment	7,973	5,154	2,820	8,278	5,106	3,172	8,278 4/	-	
Prof. and scientific instruments, etc.	1,190	691	500	1,350	860	490	1,167	183	
All other manufactured products	3,557	1,200	2,357	3,779	1,458	2,321	3,503	276	

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Note: Detail may not add to totals due to rounding.

1/ For individual products, except those indicated by footnotes (3) or (4), the amount in column (7) is derived by dividing the amount in column (6) by the amount in column (3) and multiplying the result by the amount in column (1).

2/ The amounts in column (8) are derived by subtracting the amount in column (7) from the amount in column (4).

3/ These amounts for product groups are derived by summing the amounts for individual products.

4/ For these products, DISC exports grew less rapidly between DISC years 1972 and 1973 than did non-DISC exports. U.S. exports of these products without DISC are assumed to be the same as actual U.S. exports with DISC (column (4)).

5/ Includes forestry products.

Table 5-3

Incremental DISC Effect
in DISC Year 1974
(Millions of dollars)

Product	DISC year 1973			DISC year 1974				
	Total U.S. exports (1)	Exports of 1974 DISCs ^{1/} (2)	Non-DISC exports (3)	Total U.S. exports (4)	DISC exports (5)	Non-DISC exports (6)	Estimated U.S. exports without DISC ^{3/} (7)	Estimated incremental DISC effect ^{4/} (8)
All products, total	\$50,937	\$29,555	\$21,383	\$73,231	\$44,409	\$28,822	\$71,061 ^{5/}	\$2,169
Nonmanufactured products, total	9,987	7,205	2,782	17,788	13,496	4,292	17,548 ^{5/}	240
Grains and soybeans	5,879	5,714	165	11,901	11,229	672	11,901 ^{6/}	-
Other agricultural products	2,016	827	1,188	2,983	1,366	1,617	2,743	240
Other nonmanufactured products	2,093	665	1,429	2,904	901	2,003	2,904 ^{7/}	-
Manufactured products, total	40,950	22,349	18,601	55,442	30,913	24,529	53,513 ^{5/}	1,930
Food and kindred products	3,177	786	2,391	4,627	1,129	3,497	4,627 ^{7/}	-
Textile mill products	710	335	376	1,140	539	601	1,135	5
Lumber, paper, and related products ^{8/}	2,120	1,865	255	3,040	2,639	401	3,040 ^{6/}	-
Chemicals and allied products	4,477	2,924	1,553	6,338	4,198	2,140	6,170	168
Primary metal products	1,397	530	867	2,267	901	1,366	2,203	64
Fabricated metal products, n.e.c.	2,130	427	1,703	2,879	684	2,195	2,745	134
Machinery, except electrical	9,633	4,750	4,883	12,608	6,244	6,365	12,557	51
Electrical machinery and equipment	3,902	1,772	2,130	5,329	2,779	2,550	4,672	658
Transportation equipment	8,282	5,933	2,349	10,756	7,822	2,935	10,348	409
Prof. and scientific instruments, etc.	1,351	982	369	1,708	1,301	407	1,488	219
All other manufactured products	3,771	2,045	1,726	4,750	2,677	2,073	4,528	222

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Note: Detail may not add to totals due to rounding.

^{1/} The amounts in column (1) differ somewhat from the amounts in column (4) of Table 5-2 because of different time period weightings. For this Table, 1974 DISC time period weights are used, while in Table 5-2, 1973 DISC time period weights are used.

^{2/} The amounts in column (2) differ from the amounts in column (5) of Table 5-2 because the figures here represent the hypothetical exports of 1974 DISCs in DISC year 1973, whereas the figures in Table 5-2 represent the actual exports of 1973 DISCs in DISC year 1973.

^{3/} For individual products, except those indicated by footnotes (5), (6), or (7), the amount in column (7) is derived by dividing the amount in column (6) by the amount in column (3) and multiplying the result by the amount in column (1).

^{4/} The amounts in column (8) are derived by subtracting the amount in column (7) from the amount in column (4).

^{5/} These amounts for product groups are derived by summing the amounts for individual products.

^{6/} For these products, DISC exports exceeded 80% of total U.S. exports in DISC year 1974. The distinction between DISC and non-DISC exports is therefore statistically unreliable. It is assumed that DISC and non-DISC exports grew at the same rate between DISC years 1973 and 1974, and therefore total U.S. exports without DISC are the same as actual U.S. exports with DISC (column (4)).

^{7/} For these products, DISC exports grew less rapidly between DISC years 1973 and 1974 than did non-DISC exports. U.S. exports of these products without DISC are assumed to be the same as actual U.S. exports with DISC (column (4)).

^{8/} Includes forestry products.

Appendix A

Allocation^{1/} of Qualified Export Receipts and Net Income
to Calendar Years 1972 and 1973
(Millions of dollars)

	1972		1973	
DISC taxable period	Qualified export receipts	Net income 2/	DISC taxable period	Qualified export receipts
Full year			Full Year	
Calendar 1972	\$5,635	\$453.6	Jan.-Nov. 1973	\$ 5,280
January 1973	4,246	368.4	Calendar 1973	15,194
February 1973	207	19.1	January 1974	9,291
March 1973	997	67.6	February 1974	1,559
April 1973	658	38.0	March 1974	2,553
May 1973	408	19.9	April 1974	1,267
June 1973	922	34.0	May 1974	7,642
July 1973	196	12.9	June 1974	2,028
August 1973	98	8.7	July 1974	326
September 1973	208	10.2	August 1974	167
October 1973	253	16.1	September 1974	188
November 1973	57	6.4	October 1974	266
Total	\$13,885	\$1,054.9	November 1974	49
			Total	\$38,790
Part year			Part year	
January-December 1972	3,873	237.1	Jan.-Dec. 1973	1,366
January 1973	1,395	110.4	January 1974	129
February 1973	546	47.7	February 1974	117
March 1973	53	4.5	March 1974	251
April 1973	18	1.8	April 1974	27
May 1973	6	.7	May 1974	7
Total	\$5,891	\$402.2	Total	\$1,897
Total, full and part year returns	\$19,776	\$1,457.1	Total, full and part year returns	\$40,687
				\$ 140.6
				\$2,999.7

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1/ Since DISC tax returns can be filed for taxable periods ending with any month of the calendar year, determining the amount of DISC exports and earnings for a specific calendar year period involves a process of allocation. In allocating the qualified receipts and net income reported on returns ending January-November an even monthly distribution of receipts and income has been assumed. Part year returns were assumed to cover an average of six months.

2/ Net of deficits.

\$ 344.0
1,116.5
128.6
180.5
80.6
37.8
88.9
22.5
10.1
13.0
18.3
3.4
\$2,859.1

113.1
11.8
8.7
4.3
2.2
5
\$ 140.6

\$2,999.7

Appendix B

Form **1120-DISC**Department of the Treasury
Internal Revenue Service**Domestic International Sales Corporation
Return**

For calendar year 1973 or fiscal year beginning

1973, ending

, 19

(PLEASE TYPE OR PRINT)

1973

A Date of DISC election	Name	C Employer identification number
	Number and street	
B Business code number (See page 8 of instructions)	City or town, State, and ZIP code	E Enter total assets from line 3, column (B), Schedule L (See instruction L)
		\$

**ALL COMPUTATIONS MUST REFLECT INTER-COMPANY PRICING RULES
UNDER SECTION 994 IF USED (See Schedule P (Form 1120-DISC))**

Gross Income		Deductions	
1	Qualified export receipts from the sale of export property (line 3, Schedule B)	7	Export promotion expenses:
2	Other qualified export receipts:	(a)	Market studies
(a)	Leasing of export property	(b)	Advertising
(b)	Services related and subsidiary to a qualified export sale or lease	(c)	Depreciation (attach Form 4562)
(c)	Engineering and architectural services	(d)	Salaries and wages
(d)	Export management services	(e)	Rents
(e)	Qualified dividends (line 10, Schedule C)	(f)	Sales commissions
(f)	Interest on producer's loans	(g)	Warehousing
(g)	Other interest (attach schedule)	(h)	Freight (excluding insurance—see instructions)
(h)	Net capital gains (separate Schedule D (Form 1120))	(i)	Compensation of officers
(i)	Ordinary gain or (loss) from Part II, Form 4797 (attach Form 4797)	(j)	Repairs (see instructions)
3	Nonqualified gross receipts:	(k)	Amortization (attach schedule)
(a)	Ultimate use in the U.S.	(l)	Pension, profit-sharing, etc. plans (see instructions)
(b)	Exports subsidized by the U.S. Government (see instructions)	(m)	Employee benefit programs
(c)	Certain direct or indirect sales or leases for use by the U.S. Government	(n)	Other (list):
(d)	Sales to other DISC in the same controlled group	8	Other expenses not deducted above:
(e)	Nonqualified dividends (line 11, Schedule C)	(a)	Bad debts (Schedule F if reserve method is used)
(f)	Other (see instructions—attach sch.)	(b)	Taxes (attach schedule)
4	Total of lines 1, 2, and 3	(c)	Interest
5	Less: Cost of goods sold (Schedule A) and/or operations (attach schedule)	(d)	Contributions (not over 5% of line 12 adjusted per instructions—attach schedule)
6	TOTAL income	(e)	Freight
		(f)	Freight insurance
		(g)	Other (attach schedule)
		9	TOTAL deductions

Computation of Taxable Income

10	Taxable income before net operating loss deduction and dividends-received deduction (line 6 less line 9)
11	Less: (a) Net operating loss deduction (see instructions—attach schedule)
	(b) Dividends-received deduction (Schedule I)
12	Taxable income (line 10 less line 11)
13	Refund of U.S. tax on special fuel, nonhighway gas, and lubricating oil (attach Form 4136)

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which he has any knowledge.

The Internal Revenue Service does not require a seal on this form, but if one is used, please place it here.

Date	Signature of officer	Title
Date	Signature of individual or firm preparing the return	Preparer's address
		Emp. ident. or Soc. Sec. No.

16-83176-1

Schedule A Cost of Goods Sold (See instruction 5)

Reflect ACTUAL purchases from a related supplier at the transfer price determined under the inter-company pricing rules of section 994, if used. See Schedule P (Form 1120-DISC).

1	Inventory at the beginning of the year	
2	Purchases	
3	Salaries and wages	
4	Other costs (attach schedule)	
5	Total	
6	Less: Inventory at the end of the year	
7	Cost of goods sold—Enter here and on line 5, page 1	
Method of inventory valuation		

Was there any substantial change in the manner of determining quantities, costs, or valuations between the opening and closing inventory? ☐ Yes ☐ No

If "Yes," attach an explanation.

Schedule C Dividends (See instructions for Schedule C)

1	Domestic corporations subject to the 85% deduction	
2	Certain preferred stock of public utilities	
3	Foreign corporations subject to the 85% deduction	
4	Dividends from wholly-owned foreign subsidiaries subject to the 100% deduction (section 245(b))	
5	Other dividends from foreign corporations	
6	Includable income from controlled foreign corporations (Subpart F; attach Forms 3646)	
7	Taxable dividends from a DISC or former DISC not included in line 1 (section 246(d))	
8	Other dividends	
9	Total	
10	Less: Qualified dividends—Enter the qualified dividends here and on line 2(e), page 1	
11	Nonqualified dividends—Enter here and on line 3(e), page 1	

Schedule F Bad Debts—Reserve Method (See instruction 8(a))

1. Year	2. Trade notes and accounts receivable outstanding at the end of the year	3. Sales on account	Amount added to the reserve		6. Amount charged against the reserve	7. Reserve for bad debts at the end of the year
			4. Current year's provision	5. Recoveries		
1968						
1969						
1970						
1971						
1972						
1973						

Schedule H Summary of Depreciation (Other than additional first-year depreciation)

	Straight line	Declining balance	Sum of the years'-digits	Units of production	Other (specify)	Total
1	Depreciation from Form 4832					
2	Depreciation from Form 5006					
3	Other					

Schedule I Dividends-received Deduction (See instruction 11(b))

1	(a) 85% of line 1, Schedule C	
	(b) 60.208% of line 2, Schedule C	
	(c) 85% of line 3, Schedule C	
	(d) 100% of line 4, Schedule C	
2	Total—See page 6 of instructions for limitation. Enter here and on line 11(b), page 1	

Schedule J Deemed and Actual Distributions to Shareholders for the Taxable Year (See instructions for Schedule J)**PART I.—Deemed Distributions Under Section 995(b)(1)**

1	Gross interest derived during the year from producer's loans under section 995(b)(1)(A)	
2	Gain recognized on the sale or exchange of property under section 995(b)(1)(B) (see instructions—attach computation)	
3	Gain recognized on the sale or exchange of property under section 995(b)(1)(C) (see instructions—attach computation)	
4	Total of lines 1, 2, and 3	
5	(a) Taxable income (line 12, page 1)	
	(b) Enter the amount from line 4 above	
	(c) Line 5(a) less line 5(b) (if line 5(a) is a loss or is less than line 5(b), enter zero)	
	(d) 50% of line 5(c) (deemed distribution under section 995(b)(1)(D))	
6	Total of line 4 and line 5(d)	
7	Earnings and profits for the taxable year (see instructions—attach computation)	
8	Enter the smaller of line 6 or line 7 (but not less than zero)	
9	Foreign investment attributable to producer's loans for the taxable year under section 995(b)(1)(E) (see instructions for limitation—attach computation)	
10	Total deemed distributions under section 995(b)(1) (add line 8 and line 9)	

PART II.—Deemed Distributions Under Section 995(b)(2)

1	Annual installment of distribution attributable to revocation of election in a prior year	
2	Annual installment of distribution attributable to a failure to qualify as a DISC in a prior year	
3	Total deemed distributions under section 995(b)(2) (add line 1 and line 2)	

PART III.—Actual Distributions

1	Distributions to meet qualification requirements under section 992(c) (attach computation)	
2	Other actual distributions	
3	Total of line 1 and line 2	
4	Amount on line 3 treated as distributed out of:	
	(a) Previously taxed income	
	(b) Accumulated DISC income (including DISC income of the current year)	
	(c) Other earnings and profits	
	(d) Other	

Schedule K Shareholder's Statement of DISC Distribution
(Attach a separate Copy A, Schedule K (Form 1120-DISC) for each shareholder receiving a deemed or actual distribution. Give Copy B to the shareholder. See instructions on the back of Copy C.)**Additional Information Required**

	Yes	No		Yes	No
F Date incorporated			M (1) Did 95% or more of your gross receipts consist of qualified export receipts (as defined in section 993(a))?		
G Did any corporation, individual, partnership, trust, or estate at the end of the taxable year own, directly or indirectly, 50% or more of your voting stock? (For rules of attribution, see section 267(c).)			(2) Did the adjusted basis of your qualified export assets (as defined in section 993(b)) at the close of the taxable year equal or exceed 95% of the sum of the adjusted basis of all your assets at the close of the taxable year?		
If "Yes," attach a schedule showing the owner's:			(3) If the answer to (1) or (2) is "No," did you make a pro rata distribution of property as defined in section 992(c)?		
(a) name, address, and identifying number;			N (1) Did you have more than one class of stock?		
(b) percentage of voting stock owned; and			(2) Was the par or stated value of your stock at least \$2,500 on each day (for a new corporation, on the last day for making an election and for each succeeding day) of the taxable year?		
(c) if corporation(s), amount(s) of total assets.			O Are you a member of a controlled group that includes other DISCs?		
If "Yes," was the owner of the voting stock an alien individual or a foreign entity (corporation, partnership, trust, or estate)?			If "Yes," attach a schedule showing the names, addresses, and identifying numbers of the DISCs.		
H Did you claim a deduction for expenses connected with:			P A schedule showing the creditable foreign tax you paid is required. Have you attached the schedule?		
(1) Entertainment facility (boat, resort, ranch, etc.)?			Q Are any of your shareholders a small business concern for purposes of receiving a Small Business Administration loan as defined in section 121.3-10 of Title 13 of the Code of Federal Regulations?		
(2) Living accommodations (except employees on business)?			If "Yes," attach a schedule of the names, addresses, and identifying numbers of those shareholders.		
(3) Employees' families at conventions or meetings?					
(4) Employee or family vacations not reported on Form W-2?					
I Refer to page 8 of the instructions and state the principal:					
Business activity					
Product or service					
J Did you, at any time during the taxable year, have any interest in, or signature or other authority over, a bank, securities, or other financial account in a foreign country?					
If "Yes," attach Form 4683. (For definitions, see Form 4683.)					
K Were you a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.)					
If "Yes," attach Form 3646 for each corporation.					
L Did you file all required Forms 1087, 1096, and 1099?					

Schedule L Balance Sheets

		(A) Beginning of the taxable year	(B) End of the taxable year
Assets	1 Qualified assets (net):		
	(a) Working capital (cash and necessary temporary investments)		
	(b) Funds awaiting investment (cash in U.S. banks in excess of working capital needs to acquire other qualified export assets)		
	(c) Export-Import Bank obligations		
	(d) Trade receivables (accounts and notes receivable)		
	(e) Export property (inventory and qualified property held for lease)		
	(f) Producer's loans		
	(g) Investment in related foreign export corporations		
	(h) Depreciable assets		
	(i) Other (attach schedule)		
2 Nonqualified assets (net) (list):			
3 Total assets			
Liabilities and Stockholders' Equity	4 Accounts payable		
	5 Other current liabilities (attach schedule)		
	6 Mortgages, notes, bonds payable in 1 year or more		
	7 Other liabilities (attach schedule)		
	8 Capital stock		
	9 Paid-in or capital surplus (attach reconciliation)		
	10 Other earnings and profits		
	11 Previously taxed income		
	12 Accumulated DISC income		
	13 Less cost of treasury stock	()	()
	14 Total liabilities and stockholders' equity		

Schedule M-1 Reconciliation of Income per Books With Income per Return

1 Net income per books	6 Income recorded on books this year not included in this return (itemize)
2 Excess of capital losses over capital gains	7 Deductions in this return not charged against book income this year (itemize)
3 Taxable income not recorded on books this year (itemize)	8 Total of lines 6 and 7
4 Expenses recorded on books this year not deducted in this return (itemize)	9 Income (line 10, page 1) (line 5 less line 8)
5 Total of lines 1 through 4	

Schedule M-2 Analysis of Other Earnings and Profits (Line 10 above)

1 Balance at the beginning of the year	4 Deficit in earnings and profits
2 Increases (itemize)	5 Distributions under sec. 992(c) to qualify
3 Total of lines 1 and 2	6 Other decreases (itemize)
	7 Total of lines 4, 5, and 6
	8 Balance at end of year (line 3 less line 7)

Schedule M-3 Analysis of Previously Taxed Income (Line 11 above)

1 Balance at the beginning of the year	5 Deficit in earnings and profits
2 Deemed distributions under section 995(b)	6 Distributions under sec. 992(c) to qualify
3 Other increases (itemize)	7 Other decreases (itemize)
4 Total of lines 1, 2, and 3	8 Total of lines 5, 6, and 7
	9 Balance at end of year (line 4 less line 8)

Schedule M-4 Analysis of Accumulated DISC Income (Line 12 above)

1 Balance at the beginning of the year	6 Distributions under sec. 992(c) to qualify
2 Increases (itemize)	7 Distributions upon disqualification (sec. 995(b)(2))
3 Total of lines 1 and 2	8 Other decreases (itemize)
4 Deficit in earnings and profits	9 Total of lines 4 through 8
5 Redemptions under section 996(d)	10 Balance at end of year (line 3 less line 9)

Schedule N Geographic Source of Gross Receipts (Attach separate Schedule N (Form 1120-DISC))**Schedule P Computation of Inter-company Transfer Price or Commission (Attach separate Schedule P (Form 1120-DISC))**

SCHEDULE K
(Form 1120-DISC)Department of the Treasury
Internal Revenue Service**Shareholder's Statement of DISC Distribution—1973**

For calendar year 1973 or fiscal year

beginning, 1973, ending 19
(Complete for each shareholder—See instructions on back of Copy C)**COPY A**

File with

Form 1120-DISC**Part I Taxable Distributions**

- 1 Deemed distributions: (a) Under section 995(b)(1)
 (b) Annual installment under section 995(b)(2)
 (c) Total of lines 1(a) and 1(b)
- 2 Actual taxable distributions
- 3 Total taxable distributions—Add line 1(c) and line 2 (Enter here and report in Section A or B below)

Section A.—Individuals, Partnerships, Trusts, and Estates

- 4 Portion of line 3 above:
 (a) Entitled to the dividend exclusion under section 116

Section B.—Corporations

- 5 Portion of line 3 above:
 (a) Entitled to the dividends-received deduction under section 243
 (b) Not entitled to the dividends-received deduction

Part II Nontaxable Distributions

- 1 Actual distributions out of previously taxed income (section 996(f)(2))
- 2 Other actual nontaxable distributions
- 3 Total nontaxable distributions—Add lines 1 and 2

Part III Other Distributions

- 1 Accumulated DISC income attributable to stock sold during the year
- Name, identifying number, and address (including ZIP code) of shareholder
- Name, employer identification number, and address (including ZIP code) of DISC or former DISC

SCHEDULE K
(Form 1120-DISC)Department of the Treasury
Internal Revenue Service**Shareholder's Statement of DISC Distribution—1973**

For calendar year 1973 or fiscal year

beginning, 1973, ending 19
(Complete for each shareholder—See instructions on back of Copy C)**COPY A**

File with

Form 1120-DISC**Part I Taxable Distributions**

- 1 Deemed distributions: (a) Under section 995(b)(1)
 (b) Annual installment under section 995(b)(2)
 (c) Total of lines 1(a) and 1(b)
- 2 Actual taxable distributions
- 3 Total taxable distributions—Add line 1(c) and line 2 (Enter here and report in Section A or B below)

Section A.—Individuals, Partnerships, Trusts, and Estates

- 4 Portion of line 3 above:
 (a) Entitled to the dividend exclusion under section 116

Section B.—Corporations

- 5 Portion of line 3 above:
 (a) Entitled to the dividends-received deduction under section 243
 (b) Not entitled to the dividends-received deduction

Part II Nontaxable Distributions

- 1 Actual distributions out of previously taxed income (section 996(f)(2))
- 2 Other actual nontaxable distributions
- 3 Total nontaxable distributions—Add lines 1 and 2

Part III Other Distributions

- 1 Accumulated DISC income attributable to stock sold during the year
- Name, identifying number, and address (including ZIP code) of shareholder
- Name, employer identification number, and address (including ZIP code) of DISC or former DISC

Instructions For DISC Or Former DISC (References are to the Internal Revenue Code.)

A. GENERAL INSTRUCTIONS.—Complete Schedule K (Form 1120-DISC) for each shareholder who had an actual or deemed distribution during the taxable year. File Copy A with Form 1120-DISC (or Form 1120 if you are a former DISC). Give Copy B to the shareholder by the last day of the second month following the close of your taxable year. Keep Copy C for your records.

Actual and deemed dividend distributions do not have to be reported on Form 1099-DIV.

B. SPECIFIC INSTRUCTIONS FOR PART I (TAXABLE DISTRIBUTIONS).—Enter on line 1(a) the shareholder's portion of the deemed distributions under section 995(b)(1) and on line 1(b) his portion of the annual installment under section 995(b)(2). The sum of the amounts entered on these lines for all shareholders should equal the total reported in Part I and Part II, Schedule J, page 3, Form 1120-DISC.

Enter on line 2 of Part I the amount of actual distributions that are tax-

able to the shareholder. These are distributions that are out of accumulated DISC income and other earnings and profits.

Complete Section A if the shareholder is an individual, partnership, trust, or estate. Complete Section B if the shareholder is a corporation. Dividends out of other earnings and profits are eligible for the dividend exclusion and the 85% dividends-received deduction. No 85% dividends-received deduction is allowed for a dividend from a DISC or former DISC if it—

- (1) is paid out of accumulated DISC income;
- (2) is paid out of previously taxed income; or
- (3) is a deemed distribution pursuant to section 995(b)(1).

C. SPECIFIC INSTRUCTIONS FOR PART II (NONTAXABLE DISTRIBUTIONS).—Enter on line 1 the shareholder's portion of actual distributions out of previously taxed income. The total of this line for all share-

holders should equal the total reported on line 4(a), Part III, Schedule J, Form 1120-DISC.

Enter on line 2 the shareholder's portion of actual nontaxable distributions out of other than (1) previously taxed income, (2) accumulated DISC income, and (3) other earnings and profits. The total of this line for all shareholders should equal the total reported on line 4(d), Part III, Schedule J, Form 1120-DISC.

D. SPECIFIC INSTRUCTIONS FOR PART III (OTHER DISTRIBUTIONS).—If (1) a shareholder disposes of stock in a DISC or former DISC or (2) the stock of a DISC or former DISC is disposed of in a transaction that terminates the separate corporate existence of the DISC or former DISC (other than a mere change in the place of organization), enter on line 1 of Part III the accumulated DISC income attributable to the stock and accumulated in the DISC during the period the shareholder held the stock.

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Instructions For DISC Or Former DISC (References are to the Internal Revenue Code.)

A. GENERAL INSTRUCTIONS.—Complete Schedule K (Form 1120-DISC) for each shareholder who had an actual or deemed distribution during the taxable year. File Copy A with Form 1120-DISC (or Form 1120 if you are a former DISC). Give Copy B to the shareholder by the last day of the second month following the close of your taxable year. Keep Copy C for your records.

Actual and deemed dividend distributions do not have to be reported on Form 1099-DIV.

B. SPECIFIC INSTRUCTIONS FOR PART I (TAXABLE DISTRIBUTIONS).—Enter on line 1(a) the shareholder's portion of the deemed distributions under section 995(b)(1) and on line 1(b) his portion of the annual installment under section 995(b)(2). The sum of the amounts entered on these lines for all shareholders should equal the total reported in Part I and Part II, Schedule J, page 3, Form 1120-DISC.

Enter on line 2 of Part I the amount of actual distributions that are tax-

able to the shareholder. These are distributions that are out of accumulated DISC income and other earnings and profits.

Complete Section A if the shareholder is an individual, partnership, trust, or estate. Complete Section B if the shareholder is a corporation. Dividends out of other earnings and profits are eligible for the dividend exclusion and the 85% dividends-received deduction. No 85% dividends-received deduction is allowed for a dividend from a DISC or former DISC if it—

- (1) is paid out of accumulated DISC income;
- (2) is paid out of previously taxed income; or
- (3) is a deemed distribution pursuant to section 995(b)(1).

C. SPECIFIC INSTRUCTIONS FOR PART II (NONTAXABLE DISTRIBUTIONS).—Enter on line 1 the shareholder's portion of actual distributions out of previously taxed income. The total of this line for all share-

holders should equal the total reported on line 4(a), Part III, Schedule J, Form 1120-DISC.

Enter on line 2 the shareholder's portion of actual nontaxable distributions out of other than (1) previously taxed income, (2) accumulated DISC income, and (3) other earnings and profits. The total of this line for all shareholders should equal the total reported on line 4(d), Part III, Schedule J, Form 1120-DISC.

D. SPECIFIC INSTRUCTIONS FOR PART III (OTHER DISTRIBUTIONS).—If (1) a shareholder disposes of stock in a DISC or former DISC or (2) the stock of a DISC or former DISC is disposed of in a transaction that terminates the separate corporate existence of the DISC or former DISC (other than a mere change in the place of organization), enter on line 1 of Part III the accumulated DISC income attributable to the stock and accumulated in the DISC during the period the shareholder held the stock.

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SCHEDULE N
(Form 1120-DISC)

Department of the Treasury
Internal Revenue Service

Geographic Source of Gross Receipts

► See separate instructions.

▶ **Attach this schedule to your return.**

1973

Name as shown on Form 1120-DISC

Export receipts of the DISC by product code (See separate Instructions for Schedule N (Form 1120-DISC))

Product code
number

Percent of export receipts

Employer Identification number

1

2

Part I

Geographic Source of the DISC's Gross Receipts from All Sources

(See general instruction B) (Attach additional copies of this schedule if necessary)

[illegible]

Part II **Geographic Source of the DISC's and Certain Related Persons' Gross Receipts Derived Outside the U.S.**
(To be completed only by certain DISC's—see general instruction C) (Attach additional copies of this schedule if necessary)

Section A.—Related Persons

(List related U.S. persons, U.S. branches of controlled foreign corporations of those related U.S. persons, and related foreign export corporations)

[illegible]

Section B.—Geographic Source of Gross Receipts Derived Outside the U.S.

[illegible]

SCHEDULE P
(Form 1120-DISC)

 Department of the Treasury
 Internal Revenue Service

**Computation of Inter-company Transfer
 Price or Commission**

 ▶ Attach a separate schedule for each transaction or group of transactions to which the inter-company pricing rules under section 994(a)(1) and (2) are applied.
 For amount reported on line _____, Schedule or page _____, Form 1120-DISC

1973

Name as shown on Form 1120-DISC

This schedule is for a (check one):

(a) Single transaction ☐(b) Group of transactions ☐

Employer identification number

Identify product or product line reported on this schedule (Also, enter Standard Industrial Classification number, if used) (See instruction B)

Part I Computation of DISC Taxable Income
SECTION A.—Computation of Combined Taxable Income
Section A-1.—If marginal costing is not used

- 1 Gross receipts from transaction between DISC (or related supplier) and third party
- 2 Less costs and expenses allocable and apportionable to gross income from transaction:
 - (a) Cost of goods sold attributable to property if sold or depreciation attributable to property if leased
 - (b) Related supplier's expenses allocable and apportionable to gross income from transaction
 - (c) DISC export promotion expenses allocable and apportionable to gross income from transaction
 - (d) Other DISC expenses allocable and apportionable to gross income from transaction
- 3 Combined taxable income (if a loss, enter zero)

Section A-2.—If marginal costing is used

- 1 Gross receipts from resale by DISC (or sale by related supplier) to third party
- 2 Less costs and expenses allocable and apportionable to gross income from sale:
 - (a) Cost of direct material attributable to property sold
 - (b) Cost of direct labor attributable to property sold
 - (c) DISC export promotion expenses allocable and apportionable to gross income from sale that are claimed as such
- 3 Combined taxable income (or loss) before application of overall profit percentage limitation (if a loss, enter zero on line 10 and omit lines 4 through 9)
- 4 Gross receipts of related supplier and DISC (or controlled group) from all foreign and domestic sales of the product or product line
- 5 Less costs and expenses of related supplier and DISC (or controlled group) allocable and apportionable to gross income from such sales:
 - (a) Cost of goods sold attributable to property sold
 - (b) Expenses allocable and apportionable to gross income from such sales
- 6 Total taxable income on full costing basis (line 4 less line 5) (if a loss, enter zero on line 10 and omit lines 7 through 9)
- 7 Overall profit percentage (divide line 6 by line 4) (if controlled group exception is applied, check here ☐—see instruction G) %
- 8 Enter amount from line 1, Section A-2
- 9 Overall profit percentage limitation (multiply line 8 by line 7)
- 10 Combined taxable income (enter the smaller of line 3, Section A-2 or line 9)

SECTION B.—50-50 Combined Taxable Income Method (Must be used if marginal costing is used)

- 1 Combined taxable income (enter amount from line 3, Section A-1 or line 10, Section A-2)
- 2 Enter one-half of line 1
- 3 Enter 10% of DISC export promotion expenses allocable and apportionable to gross income from transaction that are claimed as such
- 4 Total (add line 2 and line 3)
- 5 DISC taxable income (enter the smaller of line 1 or line 4)

SECTION C.—4% Gross Receipts Method (Cannot be used if marginal costing is used)

- 1 Gross receipts from transaction (enter amount from line 1, Section A-1)
- 2 Multiply line 1 by 4%
- 3 10% of DISC export promotion expenses (enter 10% of amount from line 2(c), Section A-1)
- 4 Total (add line 2 and line 3)
- 5 Combined taxable income (enter amount from line 3, Section A-1 or amount computed under special rule—if special rule is applied, check here ☐—see instruction H)
- 6 DISC taxable income (enter the smaller of line 4 or line 5)

Part II Computation of Transfer Price From Related Supplier to DISC

1	Gross receipts from transaction (enter amount from line 1, Section A-1 or line 1, Section A-2)	
2	Less reductions:	
(a)	DISC taxable income (not in excess of amount determined in Part I)	
(b)	DISC export promotion expenses allocable and apportionable to gross income from transaction	
(c)	Other DISC expenses allocable and apportionable to gross income from transaction	
3	Transfer price from related supplier to DISC (see instruction F)	

Part III Computation of DISC Commission From Related Supplier

1	DISC taxable income (not in excess of amount determined in Part I)	
2	DISC export promotion expenses allocable and apportionable to gross income from transaction	
3	Other DISC expenses allocable and apportionable to gross income from transaction	
4	DISC commission from related supplier (add lines 1 through 3) (see instruction F)	

Instructions

(References are to the Internal Revenue Code.)

These rules are subject to modification by final DISC regulations.

A. Purpose of Schedule P (Form 1120-DISC).—This schedule must be completed and attached to Form 1120-DISC to show the computation of DISC taxable income used in computing (1) the transfer price from a related supplier to a DISC or (2) the DISC commission from a related supplier.

Complete a separate Schedule P for each transaction or group of transactions to which the inter-company pricing rules of section 994(a)(1) and (2) are applied.

B. DISC Taxable Income.—The determination of taxable income may be made on a transaction-by-transaction basis. However, at the annual choice of the taxpayer, some or all of these determinations for sales, leases, and certain services related to sales or leases may be made on the basis of groups consisting of products or product lines but each such group must be limited to one type of transaction (i.e., sales, leases, or commissions).

The determination as to a product or product line will be accepted if it conforms to any one of the following standards: (1) a recognized industry or trade usage, or (2) the 2-digit major groups (or any sub-classifications within a major group) of the Standard Industrial Classification. You may choose a product grouping with respect to one product and use the transaction-by-transaction method for another product within the same taxable year.

Generally, the computation of taxable income under the inter-company pricing rules will not be permitted to the extent that their application would result in a loss to the related supplier involved in the computation.

Each of the following methods may be applied with respect to sales, leases, and services. See regulations to be issued under section 994.

1. 4% gross receipts method.—Under the 4% method, the transfer price charged by the related supplier to the DISC or DISC commission from the related supplier is the amount as a result of which the

taxable income derived by the DISC from the transaction will not exceed the sum of (1) 4% of the qualified export receipts of the DISC derived from the transaction plus (2) 10% of the export promotion expenses (as defined in section 994 (c)) of the DISC attributable to the qualified export receipts.

2. 50-50 combined taxable income method.—Under the 50-50 method, the transfer price charged by the related supplier to the DISC or DISC commission from the related supplier is the amount as a result of which the taxable income derived by the DISC from the transaction will not exceed the sum of (1) 50% of the combined taxable income of the DISC and its related supplier attributable to the qualified export receipts from the transaction plus (2) 10% of the export promotion expenses (as defined in section 994(c)) of the DISC attributable to the qualified export receipts.

See instruction C if marginal costing rules apply.

3. Section 482 method.—Under the section 482 method, the transfer price charged by the related supplier to the DISC or DISC commission from the related supplier is the amount actually charged but subject to the arm's length standard of section 482. Do not complete Schedule P if the section 482 method is used.

4. Incomplete transactions.—For purposes of the 4% and 50-50 methods, if property is sold to the DISC by the related supplier during the year but is not resold by the DISC during the year, the transfer price by the related supplier to the DISC must be at least (but need not exceed) the related supplier's cost of goods sold. Do not complete Schedule P for incomplete transactions. The transfer price by the related supplier to the DISC must be recomputed for the year in which the DISC resells the property and the transaction must then be reported on Schedule P for that year.

C. Part I, Section A.—Computation of Combined Taxable Income.—Complete Section A-1 unless the marginal costing rules apply.

Complete Section A-2 if the marginal costing rules apply. Marginal costing rules

apply only for sales, or commissions on sales, of property and only if the 50-50 method is used.

Marginal costing cannot be used for (1) leasing of property; (2) performance of services; or (3) sales of export property that (in the hands of a purchaser related under section 954(d)(3) to the seller) give rise to foreign base company sales income as described in section 954(d) unless, for the purchaser's year in which it resells the property, section 954(b)(3)(A) is applicable or the income is under the exceptions in section 954(b)(4).

D. Part I, Section B.—50-50 Combined Taxable Income Method.—Complete this section if the 4% gross receipts method (Part I, Section C) is not used whether or not marginal costing (Section A-2) is used.

E. Part I, Section C.—4% Gross Receipts Method.—Do not complete this section if the 50-50 method (Part I, Section B) is used.

F. Reporting amounts on Form 1120-DISC.—If (1) the computed transfer price for sales, leases, or services (Part II) or (2) DISC commission (Part III) is entered on more than one line of Form 1120-DISC, attach an explanation indicating the portion of the total that is applied to each line.

G. Exception permitted by regulations.—The overall profit percentage may be computed under regulations permitting the consideration of a controlled group of corporations of which the DISC is a member.

H. Special rule for applying the 4% gross receipts method permitted by regulations.—If DISC taxable income on a sale is computed under the 4% method and the DISC chooses to apply the special rule permitted by regulations that a transfer price or commission will not be considered to cause a loss for a related supplier if the net profit percentage of the DISC on the sale is not greater than the net profit percentage of the DISC and the related supplier on all sales by them of the product or product line, attach a separate computation of the limitation on DISC taxable income determined under the special rule and enter the amount on line 5, Section C.

1973

Department of the Treasury Internal Revenue Service

Instructions for Form 1120-DISC Domestic International Sales Corporation Return

(References are to the Internal Revenue Code.)

Rules provided in these instructions are subject to modification by final regulations relating to the DISC provisions.

Sec. 992. Requirements of a DISC

(a). **General rule.**—A DISC is a corporation that is incorporated under the laws of any State or the District of Columbia and satisfies the following conditions for the taxable year:

(1) 95% or more of its gross receipts (as defined in section 993(f)) consist of qualified export receipts (as defined in section 993(a));

(2) the adjusted basis of its qualified export assets (as defined in section 993(b)) at the end of the taxable year equals or exceeds 95% of the sum of the adjusted basis of all its assets at the end of the taxable year;

(3) it does not have more than one class of stock and the par or stated value of its outstanding stock is at least \$2,500 on each day (for a new corporation, on the last day for making an election and for each succeeding day) of the taxable year;

(4) it has made an election to be treated as a DISC and the election is in effect for the taxable year;

(5) it has its own bank account on each day (for a new corporation, on the last day for making an election and for each succeeding day) of the taxable year and maintains separate books and records; and

(6) it is not an ineligible corporation.

(b). **Election.**—An election by an existing corporation to be treated as a DISC for a taxable year must be made at any time during the 90-day period immediately preceding the beginning of the taxable year and by a new corporation within 90 days after the beginning of the first taxable year.

In general, the election will be valid only if all persons who are shareholders in the corporation on the first day of the first taxable year for which the election is effective consent to the election. (See Form 4876, Election to be Treated as a DISC.)

An election may be terminated by a revocation of the election for any taxable year after the first taxable year

for which the election is effective if made at any time during the first 90 days of the taxable year (or for the taxable year following the taxable year in which made, if made after the close of such 90 days).

The election will be terminated by the continued failure of the corporation to be a DISC for each of any 5 consecutive taxable years for which an election is effective.

(c). **Distributions to meet qualification requirements.**—A corporation that for a taxable year does not satisfy the gross receipts or qualified export assets conditions will be deemed to satisfy the condition for the year if it makes a pro rata distribution of property after the close of the taxable year to its shareholders (designated at the time of the distribution as a distribution to meet qualification requirements) with respect to their stock in an amount which is equal to (1) the portion of its taxable income attributable to its gross receipts that are not qualified export receipts if it fails the gross receipts condition, (2) the fair market value of those assets that are not qualified export assets on the last day of the taxable year if the qualified export assets condition is not met, and (3) the sum of (1) and (2) if neither condition is met.

See section 992(c)(2) for reasonable cause for failure to make distributions to meet qualification requirements and section 992(c)(3) for distributions made within 8½ months after the close of the taxable year.

(d). **Ineligible corporations.**—The following corporations are not eligible for DISC treatment:

(1) a corporation exempt from tax under section 501,

(2) a personal holding company as defined in section 542,

(3) a financial institution to which section 581 or 593 applies,

(4) an insurance company subject to the tax imposed by subchapter L,

(5) a regulated investment company as defined in section 851(a),

(6) a China Trade Act corporation receiving the special deduction provided in section 941(a), or

(7) an electing small business corporation as defined in section 1371(b).

Sec. 993. Definitions

(a). **Qualified export receipts.**—Except as provided by regulations under section 993(a)(2), qualified export receipts of a corporation are:

(1) gross receipts from the sale, exchange, or other disposition of export property;

(2) gross receipts from the lease or rental of export property that is used by the lessee of the property outside the U.S.;

(3) gross receipts for services that are related and subsidiary to any qualified sale, exchange, lease, rental, or other disposition of export property by the corporation;

(4) gain from the sale, exchange, or other disposition of qualified export assets (other than export property);

(5) dividends (or amounts includible in gross income under section 951) with respect to stock of a related foreign export corporation;

(6) interest on any obligation that is a qualified export asset;

(7) gross receipts for engineering or architectural services for construction projects located (or proposed for location) outside the U.S.; and

(8) gross receipts for the performance of managerial services in furtherance of the production of other qualified export receipts of a DISC.

(b). **Qualified export assets.**—Qualified export assets of a corporation are:

(1) export property;

(2) assets used primarily in connection with the sale, lease, rental, storage, handling, transportation, packaging, assembly, or servicing of export property, or the performance of engineering or architectural services as described in section 993(a)(1)(G) or managerial services in the furtherance of the production of qualified export receipts as described in section 993(a)(1)(A), (B), (C), and (G);

(3) accounts receivable and evidences of indebtedness that arise by reason of transactions described in section 993(a)(1)(A), (B), (C), (D), (G), or (H);

(4) money, bank deposits, and other similar temporary investments that are reasonably necessary to meet the working capital requirements of the corporation;

(5) obligations arising in connection with a producer's loan;

(6) stock or securities of a related foreign export corporation;

(7) certain obligations issued, guaranteed, or insured, in whole or in part, by the Export-Import Bank of the U.S. or the Foreign Credit Insurance Association in those cases where the obligations are acquired from the bank or association or from the seller or purchaser of the goods or services from which the obligations arose;

(8) certain obligations issued by a domestic corporation organized solely

for the purpose of financing sales of export property pursuant to an agreement with the Export-Import Bank of the U.S. under which the corporation makes export loans guaranteed by the bank; and

(9) amounts (other than reasonable working capital) on deposit in the U.S. that are utilized during the period provided by regulations to acquire other qualified export assets.

(c). **Export property.**—Export property is property (except excluded property and property in short supply):

(1) manufactured, produced, grown, or extracted in the U.S. by a person other than a DISC;

(2) held primarily for sale, lease, or rental in the ordinary course of trade or business, by, or to, a DISC, for direct use, consumption, or disposition outside the U.S.;

(3) consisting of a fair market value of which not more than 50% is attributable to articles imported into the U.S.; and

(4) not sold or leased (i) by a DISC, or with a DISC as commission agent, to another DISC that is a member of the same controlled group (as defined in section 993(a)(3)) as the DISC or (ii) by any person to a Western Hemisphere trade corporation (as defined in section 921) that is a related person (a member of the same controlled group as defined in section 993(a)(3) or a relationship that would result in a disallowance of losses under section 267 or section 707(b)) immediately before or after a transaction with respect to the seller, lessor, or commission agent.

(d). **Producer's loans.**—An obligation subject to the rules provided in section 993(d)(2) and (3) will be treated as arising out of a producer's loan if:

(1) the loan, when added to the unpaid balance of all other producer's loans made by the DISC, does not exceed the accumulated DISC income at the beginning of the month in which the loan was made;

(2) the obligation is evidenced by a note (or other evidence of indebtedness) with a stated maturity date not more than 5 years from the date of the loan;

(3) the loan is made to a person engaged in the U.S. in the manufacturing, production, growing, or extraction of export property; and

(4) it is designated as a producer's loan at the time of the loan.

(e). **Related foreign export corporation.**—A DISC may acquire and receive income in the form of dividends and interest from the following investments that are related to exports from the U.S.

Foreign international sales corporation (FISC).—A foreign corporation is a related foreign export corporation if:

(1) stock possessing more than 50% of the total combined voting power of all classes of stock entitled to vote is owned directly by the DISC;

(2) 95% or more of the foreign corporation's gross receipts for its taxable year ending with or within the taxable year of the DISC consists of qualified-export receipts described in section 993(a)(1)(A) through (D) and interest on any obligation described in section 993(b)(3) and (4); and

(3) the adjusted basis of the qualified export assets held by the foreign corporation at the close of the taxable year equals or exceeds 95% of the sum of the adjusted basis of all assets held by it at the close of the taxable year.

Real property holding company.—A foreign corporation is a related foreign export corporation if:

(1) stock possessing more than 50% of the total combined voting power of all classes of stock entitled to vote is owned directly by the DISC; and

(2) its exclusive function is to hold title to real property for the exclusive use (under a lease or otherwise) of the DISC because of a requirement of applicable foreign law that the DISC cannot hold title.

Associated foreign corporation.—A foreign corporation is a related foreign export corporation if:

(1) less than 10% of the total combined voting power of all classes of the foreign corporation's stock entitled to vote is owned (within the meaning of section 1563(d) and (e)) by the DISC or by a controlled group of corporations (within the meaning of section 1563) of which the DISC is a member; and

(2) the ownership of stock and securities in the foreign corporation by the DISC is determined to be reasonably in furtherance of a transaction or transactions giving rise to qualified export receipts of the DISC.

(f). **Gross receipts.**—The term gross receipts means the total receipts from the sale, lease, or rental of property held primarily for sale, lease, or rental in the ordinary course of a trade or business and gross income from all other sources.

In the case of commissions on the sale, lease, or rental of property, the amount taken into account will be the gross receipts on the sale, lease, or rental of the property on which the commissions arose.

(g). **United States.**—U.S. includes the Commonwealth of Puerto Rico and the possessions of the U.S.

Sec. 994. Inter-Company Pricing Rules

In the case of a sale of export property to a DISC by a person described in section 482, the taxable income of the DISC and the other person may be based upon a transfer price which would allow the DISC to derive taxable income attributable to the sale (regardless of the sales price actually charged) in an amount which does not exceed the greatest of:

(1) 4% of the qualified export receipts on the sale of the property by the

DISC plus 10% of the export promotion expenses of the DISC attributable to the receipts,

(2) 50% of the combined taxable income of the DISC and the person which is attributable to the qualified export receipts on the property derived as the result of a sale by the DISC plus 10% of the export promotion expenses of the DISC attributable to the receipts, or

(3) taxable income based upon the sales price actually charged (subject to the rules provided in section 482).

(Note: Generally, inter-company pricing rules (1) and (2) above will not permit the related person to price at a loss. See Schedule P (Form 1120-DISC).)

Export promotion expenses are those expenses incurred to advance the distribution or sale of export property for use, consumption, or distribution outside the U.S. but do not include income tax. They include freight expenses to the extent of 50% of the cost of shipping export property aboard airplanes owned and operated by U.S. persons or ships documented under the laws of the U.S. in those cases where law or regulations do not require that the property be shipped aboard such airplanes or ships.

General Instructions

A. Corporations required to file Form 1120-DISC.—Form 1120-DISC must be filed by a domestic corporation that has elected to be treated as a DISC and has satisfied the requirements under section 992 for treatment as a DISC for the taxable year.

A "former DISC," as defined in section 992(a)(3), must file Form 1120.

B. Where to file.—

If the principal business, office, or agency is located in: Use this address

New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Internal Revenue Service Center 1040 Waverly Avenue Holtsville, New York 11799
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Internal Revenue Service Center 310 Lowell Street Andover, Mass. 01812
Alabama, Florida, Georgia, Mississippi, South Carolina	Internal Revenue Service Center 4804 Buford Highway Chamblee, Georgia 30006
Michigan, Ohio	Internal Revenue Service Center Cincinnati, Ohio 45298
Arkansas, Kansas, Louisiana, New Mexico, Oklahoma, Texas	Internal Revenue Service Center 3651 S. Interregional Highway Austin, Texas 78740
Alaska, Arizona, Colorado, Idaho, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Internal Revenue Service Center 1160 West 1200 South Street Ogden, Utah 84201
Illinois, Iowa, Missouri, Wisconsin	Internal Revenue Service Center 2306 E. Bannister Road Kansas City, Mo. 64170

California, Hawaii	Internal Revenue Service Center 5045 East Butler Avenue Fresno, California 93888
Indiana, Kentucky, North Carolina, Tennessee, Virginia, West Virginia	Internal Revenue Service Center 3151 Democrat Road Memphis, Tennessee 38110
Delaware, District of Columbia, Maryland, Pennsylvania	Internal Revenue Service Center 11601 Roosevelt Boulevard Philadelphia, Pa. 19155

The separate income tax returns of a group of corporations located in several Service Center regions may be filed with the Service Center for the area in which the principal office of the managing corporation that keeps all the books and records is located.

C. When to file.—Form 1120-DISC must be filed on or before the 15th day of the 9th month following the close of the taxable year.

No extension of time to file will be granted.

D. Period to be covered by the 1973 return.—The 1973 return is to be filed for calendar year 1973 and fiscal years beginning in 1973 and ending in 1974. If the return is for a fiscal year, fill in the taxable year space on the form.

Final return.—If the corporation ceases to exist, write "FINAL RETURN" at the top of the form.

E. Change in accounting period.—To change your accounting period, see section 1.442-1 of the regulations and Form 1128, Application for Change in Accounting Period.

F. Accounting methods.—A DISC may, generally, choose any method of accounting permissible under section 446(c) and the regulations thereunder. However, if a DISC is a member of a controlled group (as defined in section 993(a)(3)), the DISC may not choose a method of accounting that, when applied to transactions between the DISC and other members of the controlled group, will result in a material distortion of the income of the DISC or any other member of the controlled group. A material distortion would occur, for example, if a DISC chooses to use the cash method of accounting where the DISC acts as a commission agent in a substantial volume of sales of property by a related corporation that uses the accrual method of accounting and customarily pays commissions to the DISC more than 2 months after the sales.

Unless the law specifically permits, you may not change the method of accounting used to report income in prior years (for income as a whole or for any material item) without first obtaining consent on Form 3115, Application for Change in Accounting Method.

Rounding off to whole-dollar amounts.—The money items on your return and accompanying schedules may be shown as whole-dollar amounts

by dropping any amount less than 50 cents and increasing any amount from 50 cents through 99 cents to the next higher dollar.

G. Stock ownership in foreign corporations.—If you owned 5% or more in value of the outstanding stock of a foreign personal holding company, attach the statement required by section 551(d).

If you control a foreign corporation or were a 10% or more shareholder of a controlled foreign corporation, you may be required to file Forms 2952 and 3646.

H. Financial statements.—The balance sheets must agree with your books and records. Any differences must be reconciled.

I. Attachments.—Attachments may be used if the lines on the form schedules are not sufficient. They must contain all the required information; must follow the format of the official schedules; and must be attached to the return in the same sequence as the schedules appear on the official form. If an attachment is used in place of a schedule having a summary line on page 1, the total need not be entered on the schedule but must be entered on page 1.

Enter your name and identifying number on all attachments exactly as shown on page 1, Form 1120-DISC.

J. Amended return.—An error in a previously filed return may be corrected by filing an amended Form 1120-DISC.

K. Signature.—The return must be signed by the president, vice president, treasurer, assistant treasurer, chief accounting officer, or by any other corporate officer (such as tax officer) who is authorized to sign.

A receiver, trustee, or assignee must sign any return that he is required to file on behalf of a corporation.

L. Total assets.—If there are no assets at the end of the taxable year, enter the total assets at the beginning of the taxable year.

M. Penalty for failure to file returns and provide information.—A penalty is imposed by section 6686 (in addition to the penalty imposed by section 7203) on any person required to supply information or file a return who fails to supply information or file a return at the time prescribed or who files a return that does not show the information required.

Unless it is shown that the failure is due to reasonable cause, the penalty is (1) \$100 for each failure to supply information (the total amount imposed for all failures during any calendar year will not exceed \$25,000) or (2) \$1,000 for each failure to file a return.

N. Taxation of a DISC.—A DISC is not subject to any tax imposed by sections 1 through 1564 except for the

tax imposed by sections 1491 through 1494 on certain transfers to avoid tax.

A DISC is not subject to the corporate income tax, the minimum tax on tax preferences, or the accumulated earnings tax.

A DISC is subject to the provisions of sections 1441 through 1461 relating to withholding of tax on nonresident aliens and foreign corporations.

O. Investment credit and work incentive (WIN) credit.—The investment credit and the work incentive (WIN) credit do not apply to a DISC and they do not pass through to any shareholder in a DISC.

P. Nonresident alien individuals and foreign corporations, trusts, and estates.—Treat all gains on the disposition of stock in a DISC or former DISC and all distributions out of accumulated DISC income, including deemed distributions, as effectively connected with the conduct of a trade or business conducted through a permanent establishment within the U.S.

Specific Instructions

(Numbered to correspond with the line numbers on page 1 of the return.)

Gross Income

Enter gross income in lines 1 through 3 categorized as either (1) qualified export receipts from the sale of export property, (2) other qualified export receipts, or (3) nonqualified gross receipts. If an income item consists of two or more categories, report each on the applicable line. For example, if interest income consists of qualified interest from a foreign international sales corporation and nonqualified interest from a domestic obligation, enter the qualified interest on an attached schedule for line 2(g) and the nonqualified interest on an attached schedule for line 3(f).

Special rule for completing lines 1, 2, and 3 when the DISC acts as a commission agent.—For commissions on the sale, lease, or rental of property, attach a separate schedule listing (1) the gross receipts on the sale, lease, or rental of property on which the commissions arose and (2) the commissions earned on the sale, lease, or rental. Enter the commissions earned, rather than gross receipts, on the appropriate line on Form 1120-DISC.

See instructions 2(h) and 2(i) for details regarding the reporting of gains from sale of qualified export assets.

If you use the installment method of reporting, attach a schedule showing for the current and 3 preceding years: (a) gross sales, (b) cost of goods sold, (c) gross profit, (d) percentage of gross profit to gross sales, (e) amount collected, and (f) gross profit on amount collected.

1. Qualified export receipts from the sale of export property.—These are receipts from the sale of property, such as inventory, produced in the U.S. for direct use, consumption, or disposition outside the U.S.

For a sale to meet the export requirement, it must meet (1) a destination test and (2) a requirement that the sale not be for ultimate use in the U.S.

The destination test will be considered satisfied if the property is delivered (regardless of the F.O.B. point or the place at which title passes or risk of loss shifts from the seller or lessor):

(a) Within the U.S. to a carrier or freight forwarder for ultimate delivery outside the U.S. to a purchaser or lessee (or to a subsequent purchaser or sublessee);

(b) Within the U.S. to a purchaser or lessee, if the property is ultimately delivered outside the U.S. (including delivery to a carrier or freight forwarder for delivery outside the U.S.) by the purchaser or lessee (or a subsequent purchaser or sublessee) within one year after the sale or lease;

(c) Within or outside the U.S. to a purchaser or lessee that, at the time of the sale or lease, is a DISC and is not a member of the same controlled group (as defined in section 993(a)(3)) as the seller or lessor;

(d) From the U.S. to the purchaser or lessee (or a subsequent purchaser or sublessee) at a point outside the U.S. by means of the seller's or lessor's own ship, aircraft, or other delivery vehicle;

(e) Outside the U.S. to a purchaser or lessee from a warehouse, a storage facility, or assembly site located outside the U.S., if the property was previously shipped by the seller or lessor from the U.S.; or

(f) Outside the U.S. to a purchaser or lessee if the property was previously shipped by the seller or lessor from the U.S. and if the property is located outside the U.S. pursuant to a prior lease by the seller or lessor, and either (a) the prior lease terminated at the expiration of its term (or by the action of the prior lessee acting alone), (b) the sale occurred or the term of the subsequent lease began after the time at which the term of the prior lease would have expired, or (3) the lessee under the subsequent lease is not a related person (a member of the same controlled group as defined in section 993(a)(3) or a relationship that would result in a disallowance of losses under section 267 or section 707(b) immediately before or after the lease) with respect to the lessor and the prior lease was terminated by the action of the lessor (acting alone or together with the lessee).

The second part of the export requirement for sales is that the sale must not be for ultimate use in the U.S. This test is applied at the time of the sale. If the property is to be used predominantly outside the U.S., the sale is not for ultimate use in the U.S.

Property sold to an unrelated person is considered sold for ultimate use in the U.S. if it is sold pursuant to an agreement or understanding that it will be used in the U.S. or if a reasonable person would have believed that it will be used in the U.S.

For example, if property is sold to a foreign wholesaler and it is known in trade circles that the wholesaler, to a substantial extent, supplies the U.S. retail market, the sale would not be a qualified export sale.

Special rules apply in the case of certain exported components incorporated into products imported into the U.S.

2(a). Leasing of export property.—Enter the gross amount received from the leasing (including subleasing) of export property to unrelated persons for use outside the U.S.

Whether the leased property satisfies the usage test is to be determined on a year-by-year basis.

The receipts from a lease of export property may qualify in some years and not in other years depending upon the place where the lessee uses the property in the years involved.

Deduct expenses such as repairs, interest, taxes, and depreciation on the proper lines for deductions.

2(b). Services related and subsidiary to a qualified export sale or lease.—A service is related to a sale or lease if it is of a kind customarily and usually furnished with that type of transaction in a trade or business in which the transaction arose and if the agreement to furnish the services is connected with the sale or lease. A service is subsidiary if it is of less importance and value as compared to the sale or lease.

2(c). Engineering and architectural services.—Receipts from engineering or architectural services on foreign construction projects which are either located abroad or proposed for location abroad are qualified receipts. They include feasibility studies, design and engineering, and general supervision of construction but do not include services connected with exploration for minerals.

2(d). Export management services.—Include receipts for export management services provided to unrelated DISCs.

2(e). Qualified dividends.—Enter the amount from line 10, Schedule C. See instructions for Schedule C.

2(f). Interest on producer's loans.—A producer's loan must be evidenced by a note or other evidence of indebtedness, be designated as a producer's loan, have a stated maturity not to exceed 5 years, and be attributable to the borrower's assets used in exporting and research and development.

No producer's loans can be made to a borrower until after the end of the

borrower's first taxable year beginning after 1971.

2(g). Other interest.—Enter interest on any qualified export asset other than interest on producer's loans.

Include, for example, interest on accounts receivable arising out of sales in which the DISC acted as a principal or agent and interest on certain obligations issued, guaranteed, or insured by the Export-Import Bank or the Foreign Credit Insurance Association.

2(h). Net capital gains.—Every sale or exchange of a capital asset must be reported in detail on a separate Schedule D (Form 1120) even though no gain or loss is indicated.

In addition to completing Schedule D (Form 1120), attach a separate schedule computing the gain from the sale of qualified export assets.

2(i). Ordinary gain or (loss).—Enter the total ordinary gain or loss from line 9, Part II, Form 4797.

In addition to completing Form 4797, attach a separate schedule computing the gain from the sale of qualified export assets.

3(b). Exports subsidized by the U.S. Government.—Enter receipts from the sale of products under a program of the U.S. Government, or any instrumentality thereof, that have been designated as excluded receipts.

3(c). Certain direct or indirect sales or leases for use by the U.S. Government.—Enter receipts from direct or indirect sales or leases of property or services for use by the U.S. Government, or any instrumentality thereof, where the use of U.S. products or services is required by statute or regulations.

3(d). Sales to other DISC in the same controlled group.—Enter receipts from a DISC that is a member of the same controlled group of corporations. See section 993(a)(3) for the definition of controlled group.

3(e). Nonqualified dividends.—Enter the amount from line 11, Schedule C. See instructions for Schedule C.

3(f). Other.—Include in an attached schedule any nonqualified gross receipts not reported on lines 3(a) through 3(e). Do not offset an item of expense against a similar item of expense.

5. Cost of goods sold.—If inter-company pricing rules are used, reflect in Schedule A actual purchases from a related supplier at the transfer price determined under the inter-company pricing rules of section 994. See Schedule P (Form 1120-DISC).

Where the DISC acts as a commission agent on a sale for any person, do not enter any amount in Schedule A for such sale. See Schedule P (Form 1120-DISC).

The method of valuing inventories may not be changed without permission. Application for permission to change must be made on Form 3115.

A corporation electing to use the last-in, first-out (LIFO) method of valuing inventory provided in section 472 must attach Form 970 to its return for the first year that method is to be used.

Cost of operations (where inventories are not an income-determining factor).—If the amount entered on line 5 includes an amount applicable to cost of operations, attach a schedule showing (1) salaries and wages and (2) other costs in detail.

Deductions

Enter export promotion expenses on line 7. Export promotion expenses are a DISC's ordinary and necessary expenses paid or incurred to obtain qualified export receipts (but do not include income taxes). Any expense (or any part of an expense) not incurred to obtain qualified export receipts should be entered in line 8.

That portion of payments willfully made in excess of Stabilization Guidelines are not deductible as a business expense under section 162(c)(2). (Revenue Ruling 72-236, 1972-1 C.B. 41.)

7(c). Depreciation.—Attach Form 4562 if you claim a deduction for depreciation. Enter on this line the depreciation not claimed in Schedule A and elsewhere on the return.

7(h). Freight.—Enter one-half of the freight expenses (not including insurance) for shipping export property aboard U.S. flag vessels and U.S. owned and operated aircraft (unless required by law).

7(i). Compensation of officers.—Attach a schedule showing the name, social security number, title, amount of compensation, and expense account allowance for your 6 highest paid officers.

To determine the highest paid officers, add all allowances, including expense account allowances, to each officer's compensation. Expense account allowance means (1) amounts, other than compensation, received as advances or reimbursements and (2) amounts paid by or for the corporation for expenses incurred by or on behalf of an officer. The expense account allowance does not have to be shown for any officer for whom the combined compensation and expense account allowance is less than \$30,000.

For this purpose, an officer is a person, such as regular officer, chairman of the board, etc., who is elected or appointed to office or who is designated as an officer in the corporation's charter or bylaws.

7(j). Repairs.—Enter the cost of incidental repairs, such as labor and

supplies, that do not add to the value or appreciably prolong the life of the property. Include on this line the total amount of repairs from Form 4332 and Form 5006.

7(k). Amortization.—If you claim a deduction for amortization, attach a schedule showing: (1) a description of the expenditures being amortized; (2) date acquired, completed, or expended; (3) amount being amortized; (4) amortization deducted in prior years; (5) amortization period (number of months); (6) amortization for this year; and (7) the total amount of amortization less the amount claimed in Schedule A and elsewhere on the return.

7(l). Pension, profit-sharing, etc. plans.—File Form 4848 with a Schedule A (Form 4848) and Form 4849 if you have adopted a pension, profit-sharing, or other funded deferred compensation plan. These forms are, in general, to be filed on or before the 15th day of the 5th month following the close of your taxable year.

7(m). Employee benefit programs.—Enter the amount of your contributions to employee benefit programs that are not an incidental part of a pension, profit-sharing, etc. plan included on line 7(l). Contributions to employee benefit programs that are to be reported on this line include insurance, health, and welfare programs.

8(a). Bad debts.—Bad debts may be treated in either of two ways—(1) as a deduction for debts that become worthless in whole or in part, or (2) as a deduction for a reasonable addition to a reserve for bad debts. (Section 166.)

Application to change the method of computing bad debts must be made on Form 3115.

8(b). Taxes.—Enter taxes paid or accrued during the taxable year and attach a schedule showing the type and amount of tax.

See section 164(d) for apportionment of tax on real property between seller and purchaser.

8(c). Interest.—Do not include interest on indebtedness incurred or continued to purchase or carry obligations on which the interest is wholly exempt from income tax. (Section 265.)

See section 267 for the limitation on deductions for unpaid expenses and interest in transactions between related taxpayers.

8(d). Contributions.—Enter contributions or gifts actually paid within the taxable year to or for the use of charitable and governmental organizations described in section 170(c) and any unused contributions carried over from prior years.

The total amount claimed may not exceed 5% of taxable income (line 12) computed without regard to (1) any deduction for contributions, (2) the divi-

dends-received deduction on line 11(b), (3) deductions allowed under sections 249 and 250, (4) any net operating loss carryback to the taxable year under section 172, and (5) any capital loss carryback to the taxable year under section 1212(a)(1).

Charitable contributions in excess of the 5% limitation may not be deducted for the taxable year but may be carried over to the next 5 taxable years.

A contribution carryover is not allowed, however, to the extent that it increases a net operating loss carryover. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid on or before the 15th day of the 3d month following the close of the taxable year if the contributions are authorized by the board of directors during the taxable year. A declaration, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the taxable year, and a copy of the resolution, must both be attached to the return.

Attach a schedule showing the name of each organization and the amount paid. If a contribution is made in property other than money, describe the kind of property contributed and the method used in determining its fair market value. If a contribution carryover is included, show the amount and how it was determined.

Special rule for contributions of certain property.—If you make a charitable contribution of property, the contribution must be reduced by the sum of

- (1) the ordinary income and
- (2) in the case of certain contributions, 62½% of the long-term capital gain,

that would have resulted if the property were sold at its fair market value. The reduction for 62½% of the long-term capital gain applies to (1) contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption, and (2) contributions of any property to or for the use of certain private foundations. (Section 170(e).)

Bargain sale to a charitable organization.—If you claim a charitable contribution deduction for property sold to a charitable organization, the adjusted basis for determining gain from the sale is an amount which is in the same ratio to the adjusted basis as the amount realized is to the fair market value of the property.

8(e). Freight.—Enter the freight expense not deducted on line 7(h) as an export promotion expense.

8(g). Other.—No deduction is allowable for any amount allocable to a class of exempt income other than exempt interest income. Items directly attributable to wholly exempt income must be allocated to such income,

and items directly attributable to any class of taxable income must be allocated to such taxable income.

If an item is indirectly attributable both to taxable income and exempt income, a reasonable proportion of the item, determined in the light of all the facts and circumstances in each case, must be allocated to each.

Attach a statement showing (1) the amount of each class of exempt income and (2) the amount of expense items allocated to each class. Show the amount allocated by apportionment separately.

Computation of Taxable Income.

11(a). Net operating loss deduction.—The "net operating loss deduction" is the sum of the net operating loss carryovers and carrybacks to the taxable year. (Section 172(a).)

Generally, a net operating loss may be carried back 3 years and carried over 5 years. The net operating loss must first be carried to the earliest of the 8 taxable years to which it may be carried, then to the next earliest year, etc. The portion of the loss to be carried to each of the other 7 taxable years is the excess, if any, of the loss over the sum of the taxable income for each of the prior taxable years to which the loss may be carried. (Section 172(b).)

The term "net operating loss" means the excess of allowable deductions over gross income, computed with the following modifications under section 172(d):

- (1) No net operating loss deduction is allowed.
- (2) The dividends-received deduction in line 1 of Schedule I is computed without regard to the 85% limitation provided in section 246(b). See Section 1.172-2 of the regulations.

A deficit in earnings and profits is chargeable in the following order:

- (1) first, to other earnings and profits, to the extent thereof;
- (2) second, to accumulated DISC income, to the extent thereof; and
- (3) finally, to previously taxed income.

except that a deficit in earnings and profits will not be applied against accumulated DISC income which has been determined to be deemed distributed to the shareholders (pursuant to section 995(b)(2)(A)) as a result of a revocation of election or other disqualification.

In determining the taxable income that must be subtracted from a net operating loss to determine the portion of the loss that will still be available to carry to a subsequent year, the net operating loss deduction is determined without regard to the net operating loss for the loss year or any taxable year thereafter, and, under certain circumstances, without regard to any portion of a net operating loss attributable to a foreign expropriation loss.

11(b). Dividends-received deduction.—(Numbered to correspond with the line numbers in Schedule I.)

1. In general, no dividends-received deduction will be allowed on any share of stock (a) that is disposed of before the corporation has held it 15 days or less or (b) to the extent the corporation is under an obligation to make corresponding payments with respect to substantially identical stock or securities.

No deduction is allowed under section 243 for a dividend from a DISC or former DISC (as defined in section 992(a)) to the extent it is paid out of accumulated DISC income or previously taxed income or is a deemed distribution pursuant to section 995(b)(1).

2. Limitation on dividends-received deduction.—Line 2 may not exceed 85% of line 10, page 1.

For this purpose, line 10 is to be computed without regard to any capital loss carryback to the taxable year under section 1212(a)(1).

In a year in which a net operating loss occurs, sections 172(d) and 246(b) provide that this 85% limitation does not apply even if the loss is created by the dividends-received deduction.

12. Taxable income.—If either the gross receipts method or combined taxable income method is chosen for computing the taxable income of the DISC attributable to a transaction or group of transactions consisting of products or product lines, attach a Schedule P (Form 1120-DISC) showing, in detail, the computation of the DISC's taxable income attributable to each such transaction or group of transactions.

Schedule B.—Qualified Export Receipts from the Sale of Export Property

(Numbered to correspond with the line numbers in Schedule B.)

In general, related purchasers are purchasing corporations that are members of the same controlled group (as defined in section 993(a)(3)) as the DISC. Unrelated purchasers are all other purchasers.

Special rule for completing lines 1 and 2 of Schedule B when the DISC acts as a commission agent.—For commissions on the sale, lease, or rental of property, attach a separate schedule listing (1) the gross receipts on the sale, lease, or rental of property on which the commissions arose and (2) the commissions earned on the sale, lease, or rental. Enter the commissions earned, rather than gross receipts, on lines 1 and 2 of Schedule B.

1(a).—Enter the DISC's qualified export receipts (other than those entered on line 1(b)) from sales of export property to foreign unrelated purchasers for delivery outside the U.S.

1(b).—Enter the DISC's qualified export receipts from sales of export property for delivery outside the U.S. to (1) a related foreign entity for resale (directly or indirectly) to a foreign unrelated purchaser, or (2) an unrelated purchaser where a related foreign entity acts as commission agent. A related foreign entity is a foreign corporation that is a member of the same controlled group (as defined in section 993(a)(3)) as the DISC.

2(a).—Enter the DISC's qualified export receipts (other than those entered on line 1(b)) from sales of export property to foreign related purchasers for delivery outside the U.S.

Schedule C.—Dividends

(Numbered to correspond with the line numbers in Schedule C.)

1. Enter dividends received from domestic corporations subject to income tax and the 85% deduction under section 243(a)(1).

Include on this line taxable distributions received from a DISC or former DISC that are designated as being eligible for the 85% dividends-received deduction.

For dividends received from a regulated investment company, see section 854 for the amount subject to the 85% deduction.

So-called dividends or earnings received from mutual savings banks, etc., are really interest and should not be treated as dividends.

2. Enter dividends received on the preferred stock of a public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

3. Enter dividends received from foreign corporations that qualify for the 85% deduction provided in section 245(a).

4. Enter dividends received from wholly-owned foreign subsidiaries that are eligible for the 100% deduction provided in section 245(b).

5. Enter foreign dividends (including minimum distributions under subpart F) that are not reportable on lines 3 and 4. Exclude distributions of amounts constructively taxed in the current year or in prior years under subpart F.

6. Include income constructively received from controlled foreign corporations under subpart F. This amount should equal the total of amounts reported in Schedule A, line 5 of Form(s) 3646.

7. Enter taxable distributions from a DISC or former DISC that are designated as not being eligible for the 85% dividends-received deduction. (See sections 246(d), 995(b), and 996(a)(3).)

8. Include dividends (other than capital gain dividends) received from regulated investment companies that are not subject to the 85% deduction;

dividends from tax-exempt organizations; dividends (other than capital gain dividends) received from a real estate investment trust which, for the taxable year of the trust in which the dividends are paid, qualifies under sections 856 through 858; dividends not eligible for a dividends-received deduction because of the holding period of the stock or an obligation to make corresponding payments with respect to similar stock; and any other taxable dividend income not properly reported above.

10. Dividends (and income constructively received from controlled foreign corporations under subpart F) from a qualified foreign investment of a DISC in a related foreign export corporation constitute qualified dividends. Generally, the investment will be in stock or securities of a foreign selling subsidiary of the DISC which qualifies as a foreign international sales corporation (FISC).

Schedule J.—Deemed and Actual Distributions to Shareholders for the Taxable Year

Part I.—Deemed distributions under section 995(b)(1) (Numbered to correspond with the line numbers in Part I of Schedule J.)

2. Attach a computation showing the gain recognized by the DISC during the taxable year on the sale or exchange of property, other than property which in the hands of the DISC is a qualified export asset, previously transferred to it in a transaction in which gain was not recognized in whole or in part, but only to the extent that the transferor's gain on the previous transfer was not recognized.

3. Attach a computation showing the gain (other than the gain entered on line 2) recognized by the DISC during the taxable year on the sale or exchange of property (other than property which in the hands of the DISC is stock in trade or other property described in section 1221(1)) previously transferred to it in a transaction in which gain was not recognized in whole or in part, but only to the extent that the transferor's gain

on the previous transfer was not recognized and would have been treated as ordinary income if the property had been sold or exchanged rather than transferred to the DISC.

7. Attach a computation showing the earnings and profits for the taxable year.

For purposes of computing the earnings and profits for taxable years beginning after June 30, 1972, the allowance for depreciation (and amortization, if any) is the amount which would be allowable for such year if the straight line method of depreciation had been used for each taxable year beginning after June 30, 1972. See section 312(m)(2) for exception.

9. Attach a computation showing the amount of (1) foreign investment attributable to producer's loans (as defined in section 995(d)) of the DISC for the taxable year; (2) all accumulated earnings and profits including earnings and profits for the taxable year less the amount on line 8, Part I; and (3) accumulated DISC income. Enter the smaller amount (but not less than zero) on line 9.

Foreign investment attributable to producer's loans will be the smallest of:

- (1) the net increase in foreign assets by members of the controlled group (as defined in section 993(a)(3)) that includes the DISC;
- (2) the actual foreign investment by domestic members of the group, or
- (3) the amount of the DISC's outstanding producer's loans to members of the controlled group.

For the definitions of "net increase in foreign assets" and "actual foreign investment," see sections 995(d)(2) and 995(d)(3).

Part II.—Deemed distributions under section 995(b)(2)

A shareholder of a corporation that revoked its election to be treated as a DISC or failed to qualify as a DISC for a taxable year will be deemed to have received a distribution taxable as a div-

idend equal to his pro rata share of the DISC income of the corporation accumulated during the immediately preceding consecutive taxable years for which the corporation was a DISC. The distributions will be deemed to be received in equal installments on the last day of each of the 10 taxable years of the corporation following the year of the termination or disqualification (but in no case over more than the number of immediately preceding consecutive taxable years during which the corporation was a DISC).

Schedule K.—Shareholder's Statement of DISC Distribution

Attach a separate Copy A, Schedule K (Form 1120-DISC) to Form 1120-DISC for each shareholder who had an actual or deemed distribution during the DISC's taxable year.

See instructions on the back of Copy C, Schedule K (Form 1120-DISC).

Schedule N.—Geographic Source of Gross Receipts

Complete and attach Schedule N (Form 1120-DISC) to Form 1120-DISC.

Complete Part I of the schedule to show the geographic source of the DISC's qualified export receipts and nonqualified gross receipts for the taxable year.

In Part II of the schedule, show the DISC's and certain related persons' combined gross receipts for the current year and the two preceding years.

See the separate instructions for Schedule N (Form 1120-DISC).

Schedule P.—Computation of Intercompany Transfer Price or Commission

Attach a separate Schedule P (Form 1120-DISC) for each transaction or group of transactions to which the intercompany pricing rules of section 994(a)(1) and (2) are applied.

See instructions on page 2 of Schedule P (Form 1120-DISC).

Codes for Principal Business Activity and Principal Product or Service of Corporations

These industry titles and definitions are based, in general, on the Enterprise Standard Industrial Classification system developed by the Office of Management and Budget, Executive Office of the President, to classify enterprises by type of activity in which they are engaged. The system follows closely the Standard Industrial Classification used to classify establishments. However, certain activities, such as manufacturing, do not apply to a DISC.

Using the list below, enter on page 1, under B, the code number for the specific industry group from which the largest percentage of "total receipts" is derived.

TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS, AND SANITARY SERVICES

Code

Transportation:

- 4400 Water transportation
- 4700 Other transportation services

WHOLESALE TRADE

- 5000 Commission merchants

Durable

- 5010 Motor vehicles and automotive equipment
- 5030 Lumber and construction materials
- 5050 Metals and minerals, except petroleum and scrap
- 5060 Electrical goods
- 5070 Hardware, plumbing and heating equipment
- 5080 Machinery, equipment, and supplies
- 5098 Other durable goods

Nondurable

- 5110 Paper and paper products
- 5129 Drugs, chemicals, and allied products
- 5130 Apparel, piece goods, and notions
- 5140 Groceries and related products, except meats and meat products
- 5147 Meats and meat products
- 5150 Farm-product raw materials
- 5170 Petroleum and petroleum products
- 5180 Alcoholic beverages
- 5190 Miscellaneous nondurable goods

"Total receipts" means all income (line 4, page 1). On page 3, question 1, state the principal business activity and principal product or service that account for the largest percentage of total receipts. For example, if the principal business activity is "Wholesale trade: Machinery, equipment, and supplies," the principal product or service may be "Engines and turbines."

Do not use these codes for Schedule N (Form 1120-DISC). Use the product code system on page 2 of separate Instructions for Schedule N (Form 1120-DISC) when completing Schedule N.

RETAIL TRADE

Building materials, hardware, garden supply, and mobile home dealers:

Code

- 5220 Building materials dealers
- 5251 Hardware stores
- 5265 Garden supplies and mobile home dealers
- 5300 General merchandise stores**
- 5400 Food stores**

Automotive dealers and service stations:

- 5515 Motor vehicle dealers
- 5541 Gasoline service stations
- 5598 Other automotive dealers
- 5600 Apparel and accessory stores**
- 5700 Furniture and home furnishings stores**
- 5800 Eating and drinking places**

Miscellaneous retail stores:

- 5912 Drug stores and proprietary stores
- 5921 Liquor stores
- 5995 Other miscellaneous retail stores

FINANCE, INSURANCE, AND REAL ESTATE

Credit agencies other than banks:

- 6150 Business credit institutions

Holding and other investment companies:

- 6749 Holding and other investment companies

SERVICES

Business services:

- 7389 Business services, except advertising

Auto repair and services; miscellaneous repair services:

- 7500 Auto repair and services

Other services:

- 8599 Miscellaneous services

1973

Department of the Treasury
Internal Revenue Service

Instructions for Schedule N (Form 1120-DISC) Geographic Source of Gross Receipts

General Instructions

A. Purpose of Schedule N (Form 1120-DISC).—This schedule must be completed and attached to Form 1120-DISC to report the geographic source of the DISC's gross receipts for the taxable year and to report the geographic source of the DISC's and certain related persons' gross receipts for the current year and the two preceding years.

If the lines on this schedule are not sufficient, attach additional copies of Schedule N.

B. Part I.—Geographic Source of the DISC's Gross Receipts from All Sources.—Complete Part I to report the geographic source of the DISC's qualified export receipts and nonqualified gross receipts for the taxable year.

The total of the "Qualified export receipts" column should equal the sum of lines 1 and 2, page 1, Form 1120-DISC with the following modifications:

1. In the case of commission income, report the gross receipts from the transaction that produced the income (as explained below).

2. Disregard amounts shown on lines 2(h) and 2(i), page 1, Form 1120-DISC and report only the gains from the sale of qualified export assets. Losses from the sale of qualified export assets are not taken into account.

The total of the "Nonqualified gross receipts" column should equal the sum of lines 3(a) through 3(f), page 1, Form 1120-DISC plus the nonqualified receipts included in separate Schedule D and Form 4797.

See general instruction D for the definition of "geographic source of gross receipts."

Commission income as qualified export receipts and nonqualified gross receipts.—To reconcile the "Qualified export receipts" and "Nonqualified gross receipts" columns with lines 1, 2, and 3, Form 1120-DISC in the case of a commission agent, report in Schedule N the gross receipts from the transaction that produced the commission rather than the commissions earned.

C. Part II.—Geographic Source of the DISC's and Certain Related Persons' Gross Receipts Derived Outside the U.S.—Complete Part II to report the combined gross receipts, as described in section 993(f), derived outside the U.S. for the current year and the two preceding years by a combined group consisting of the DISC and (1) related U.S. persons, (2) U.S. branches of controlled foreign cor-

porations of those related U.S. persons, and (3) related foreign export corporations as defined in section 993(e) (foreign international sales corporations, real property holding companies, and associated foreign corporations).

If more than one member of the combined group derives gross receipts from the same transaction, enter only the gross receipts of the member deriving the largest amount from the transaction.

Do not include in Part II gross receipts from goods or services whose ultimate destination or use is within the U.S.

If the DISC is required to complete Part II, use a separate line for each country, except the U.S., reported in Part I. The gross receipts for that country in the "Current year" column of Part II must be equal to or greater than the "Total" for that country reported in Part I.

See general instruction D for the definition of "geographic source of gross receipts."

Related persons.—The term "related persons" has the same meaning as the term "related persons" as defined in section 954(d)(3) except that the term "DISC" replaces the term "controlled foreign corporation." If a group of related persons includes more than one DISC, do not report the gross receipts of the related persons on a Schedule N for each DISC, but only on the Schedule N of the DISC with the largest amount of gross receipts.

All DISCs included in the group of related persons must complete Part I of Schedule N, but only the DISC with the largest amount of gross receipts must complete Part II.

Period for which information is to be furnished for the related person.—Furnish the information required in Part II for the related person's annual accounting period ending with or within the DISC's taxable year.

D. Geographic Source of Gross Receipts.—"Geographic source" is the country of destination of the merchandise export, or the location of a recipient of a service, to the best of DISC's knowledge.

"Country of destination" is the country of ultimate destination or the country where the goods are to be consumed, further processed, or manufactured, as known at the time of exportation.

If the DISC cannot determine the country of destination, enter the name and address of the person to whom the sale was made in the "Country of ultimate destination" column.

In Part I, "geographic source of gross receipts" means gross receipts from all sources (both inside and outside the U.S.).

In Part II, "geographic source of gross receipts" means only gross receipts from outside the U.S. It does not include gross receipts from shipments to Puerto Rico or gross receipts from shipments to any other territorial possession since those receipts are not considered as exports from the U.S.

Specific Instructions for Export Receipts of the DISC by Product Code

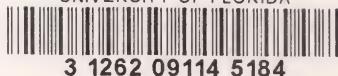
1. Product Code System.—Refer to the Product Code System on page 2 of these instructions and enter your product code number(s) and percentage(s) of export receipts in the information block on page 1 of Schedule N.

2. Product Code Number.—The product code numbers and titles are based on the Standard Industrial Classification system developed by the Office of Management and Budget, Executive Office of the President, to classify types of business activity.

Using the product code system on page 2 of these instructions, enter the code number for the major product or service sold or provided by the DISC on line 1. Enter the percent of total receipts accounted for by this product or service in the second column of line 1.

If this product or service accounts for less than 50% of total receipts, enter similar information for the product or service code and percent of total receipts for the next largest product or service on line 2.

3. Example.—A DISC has gross receipts of \$10 million. The sale of agricultural chemicals accounts for \$4.5 million of that amount. The number "287" (the product code for agricultural chemicals) should be entered in the first column of line 1 and "45%" (\$4.5 million as a percentage of \$10 million) should be entered in the second column. Since the entry on line 1 does not identify 50% of total gross receipts, the next largest product or service must be identified on line 2. The sale of industrial chemicals accounts for \$2 million (20% of \$10 million). The number "281" (the product code for industrial chemicals) should be entered in the first column of line 2 and "20%" should be entered in the second column.



Product Code System

(These codes are to be used only with Schedule N (Form 1120-DISC))

Using the list below, enter on page 1 of Schedule N the product code number and percent of export receipts as explained in instruction 2 of the Specific Instructions for Export Receipts of the DISC by Product Code.

This product code system is divided into two categories—(1) nonmanufactured product groups and services and (2) manufactured product groups.

NONMANUFACTURED PRODUCT GROUPS AND SERVICES		Primary metal products:	
Code	Code	331 Blast furnaces, steel works, and rolling and finishing mills.	
010 Agricultural products and services.	244 Wooden containers.	332 Iron and steel foundries.	
020 Export management services.	249 Miscellaneous wood products.	333 Primary smelting and refining of nonferrous metals.	
080 Forestry products and services.		334 Secondary smelting and refining of nonferrous metals.	
090 Fishery products and services.		335 Rolling, drawing, and extruding of nonferrous metals.	
100 Metal mining products and services.		336 Nonferrous foundries.	
110 Coal mining (anthracite, bituminous and lignite) products and services.		339 Miscellaneous primary metal products.	
130 Crude petroleum and natural gas products and services.			
140 Nonmetallic minerals, except fuels, products and services.		341 Metal cans.	
150 Engineering and architectural services.		342 Cutlery, hand tools, and general hardware.	
400 Transportation services, land, air and water.		343 Heating apparatus (except electric) and plumbing fixtures.	
480 Communication services.		344 Fabricated structural metal products.	
490 Electric, gas and sanitary services.		345 Screw machine products, and bolts, nuts, screws, washers, and washers.	
600 Finance, insurance and real estate services.		346 Metal stampings.	
MANUFACTURED PRODUCT GROUPS		347 Coating, engraving, and allied services.	
Ordnance and accessories:		348 Miscellaneous fabricated wire products.	
191 Guns, howitzers, mortars, and related equipment.		349 Miscellaneous fabricated metal products.	
192 Ammunition, except for small arms.			
193 Tanks and tank components.		Machinery except electrical:	
194 Sighting and fire control equipment.		351 Engines and turbines.	
195 Small arms.		352 Farm machinery and equipment.	
196 Small arms ammunition.		353 Construction, mining, and materials handling machinery and equipment.	
199 Ordnance and accessories, not elsewhere classified.		354 Metalworking machinery and equipment.	
		355 Special industry machinery, except metalworking machinery.	
Food and kindred products:		356 General industrial machinery and equipment.	
201 Meat products.		357 Office, computing, and accounting machines.	
202 Dairy products.		358 Service industry machines.	
203 Canned and preserved fruits, vegetables and sea foods.		359 Miscellaneous machinery, except electrical.	
204 Grain mill products.			
205 Bakery products.		Electrical machinery, equipment, and supplies:	
206 Sugar.		361 Electric transmission and distribution equipment.	
207 Confectionery and related products.		362 Electrical industrial apparatus.	
208 Beverages.		363 Household appliances.	
209 Miscellaneous food preparations and kindred products.		364 Electric lighting and wiring equipment.	
		365 Radio and television receiving sets, except communication types.	
Tobacco manufactures:		366 Communication equipment.	
211 Cigarettes.		367 Electronic components and accessories.	
212 Cigars.		369 Miscellaneous electrical machinery, equipment, and supplies.	
213 Tobacco (chewing and smoking) and snuff.			
214 Tobacco stemming and redrying.		Transportation equipment:	
		371 Motor vehicles and motor vehicle equipment.	
Textile mill products:		372 Aircraft and parts.	
221 Broad woven fabric mills, cotton.		373 Ship and boat building and repairing.	
222 Broad woven fabric mills, manmade fiber and silk.		374 Railroad equipment.	
223 Broad woven fabric mills, wool (including dyeing and finishing).		375 Motorcycles, bicycles, and parts.	
224 Narrow fabrics and other smallwares mills, cotton, wool, silk, and manmade fiber.		379 Miscellaneous transportation equipment.	
225 Knitting mills.			
226 Dyeing and finishing textiles, except wool fabrics and knit goods.		Professional, scientific, and controlling instruments; photographic and optical goods:	
227 Floor covering mills.		381 Engineering, laboratory, and scientific and research instruments and associated equipment.	
228 Yarn and thread mills.		382 Instruments for measuring, controlling, and indicating physical characteristics.	
229 Miscellaneous textile goods.		383 Optical instruments and lenses.	
		384 Surgical, medical, and dental instruments and supplies.	
Apparel and other finished products made from fabrics and similar materials:		385 Ophthalmic goods.	
231 Men's, youths', and boys' suits, coats, and overcoats.		386 Photographic equipment and supplies.	
232 Men's, youths', and boys' furnishings, work clothing, and allied garments.			
233 Women's, misses', and juniors' outerwear.		Miscellaneous manufactured products:	
234 Women's, misses', children's, and infants' undergarments.		391 Jewelry, silverware, and plated ware.	
235 Hats, caps, and millinery.		393 Musical instruments.	
236 Girls', children's, and infants' outerwear.		394 Toys, amusement, sporting and athletic goods.	
237 Fur goods.		395 Pens, pencils, and other office and artists' materials.	
238 Miscellaneous apparel and accessories.		396 Costume jewelry, costume novelties, buttons, and miscellaneous notions, except precious metal.	
239 Miscellaneous fabricated textile products.		399 Miscellaneous manufactured products.	
Lumber and wood products, except furniture:			
241 Logging camps and logging contractors.			
242 Sawmills and planing mills.			
243 Millwork, veneer, plywood, and prefabricated structural wood products.			